★ KENNEDY INFLATION and the MARKET ★

# The MAGAZINE of WALL STREET

and BUSINESS ANALYST

JUNE 3, 1961 85 CENTS

NEW HORIZONS IN
NTERNATIONAL FINANCIAL
COOPERATION
By JACK BAME
★
MIRACLES of
LOBAL COMMUNICATION
Via Outer Space Highway
— And the companies involved
By ALFRED R. ZIPSER
★
STOCKS "INSIDERS"
are SELLING & BUYING
By ROBERT B. SHAW
★
*Special Studies*
*of Major Industries*

*Annual Study . . .*
A REALISTIC REAPPRAISAL of the
ELECTRIC UTILITIES
At This Stage of The Market
By ROBERT R. STURTEVANT
★
THERE IS SHARP IMPROVEMENT IN
DOMESTIC OILS
By BRYAN PYNOR
★
THREE STRONG STOCKS
OFFERING UNUSUAL
INVESTMENT VALUES
By WARD GATES
★
RATIONALIZING
ILLUSIONS and REALITIES ABOUT
SOUTH AMERICA TODAY
By EUGENE VAN CLEEF

# THE MAGAZINE OF WALL STREET and BUSINESS ANALYST

*Member of Audit Bureau of Circulations*

Vol. 108 No. 6 June 3, 1961

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## CONTENTS



*Cover illustration: Artist's conception of American Tel. & Tel's satellite communication system circling the globe.*
*Illustration: Page 304 — Courtesy American Tel. & Tel. Co.*
*Illustration: Page 307 — Courtesy Alpha Industries.*

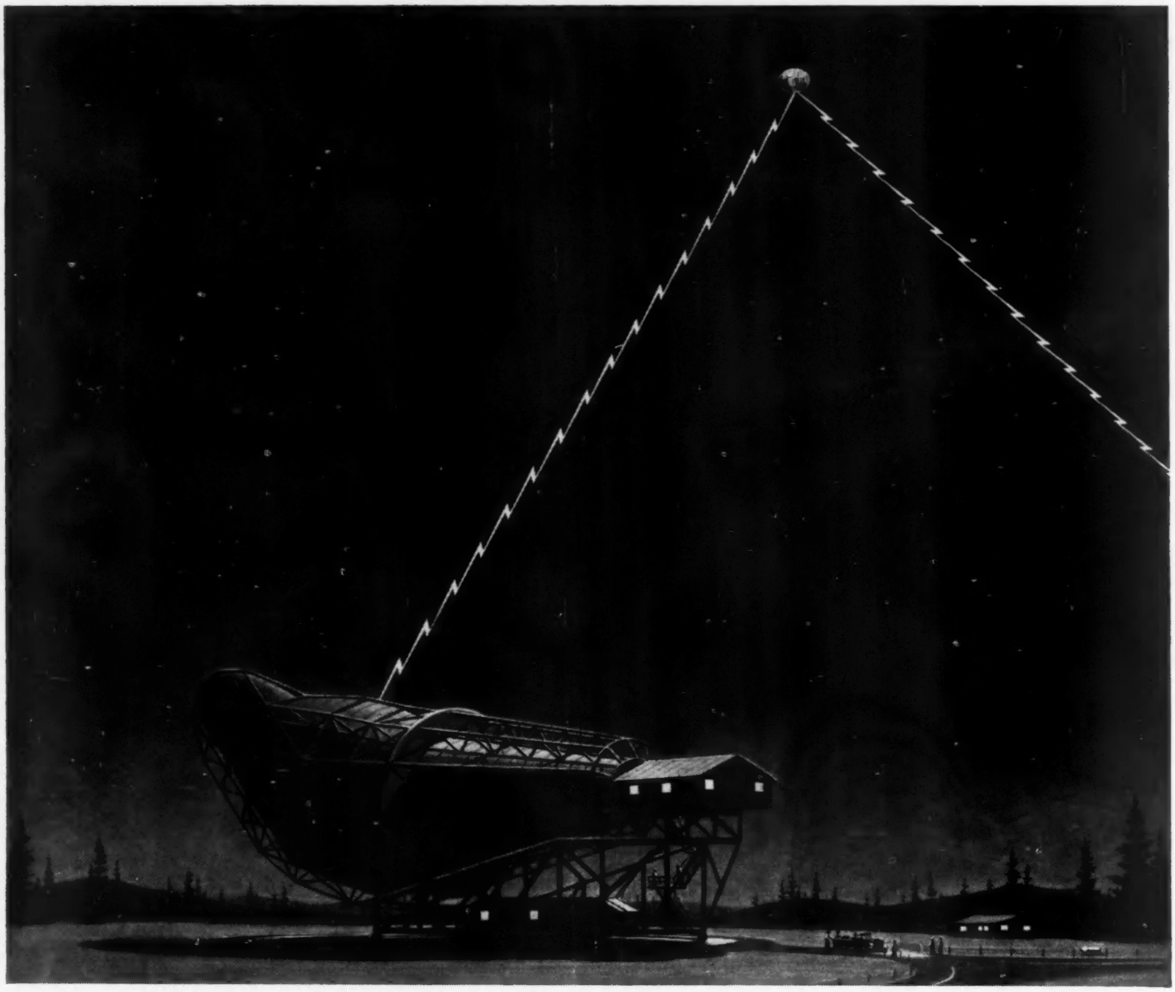

C. G. Wyckoff, President and Treasurer; Arthur G. Gaines, Secretary. The information herein is obtained from reliable sources and while not guaranteed we believe to be accurate. Single copies on newsstands in U. S. and Canada: 85 cents. Place a standing order with your newsdealer and he will secure copies regularly. Entered as second-class matter January 30, 1915, at P. O. New York, Act of March 3, 1879. Published every other Saturday.

SUBSCRIPTION PRICE — $20.00 a year in advance in the United States and its possessions. Pan American, Canadian and Foreign Postage, $3.00 additional per year. Please send International Money Order or United States Currency.

TO CHANGE ADDRESS — Write us your name and old address in full, new address in full and get notice to us three weeks before you desire magazine sent to your new address.

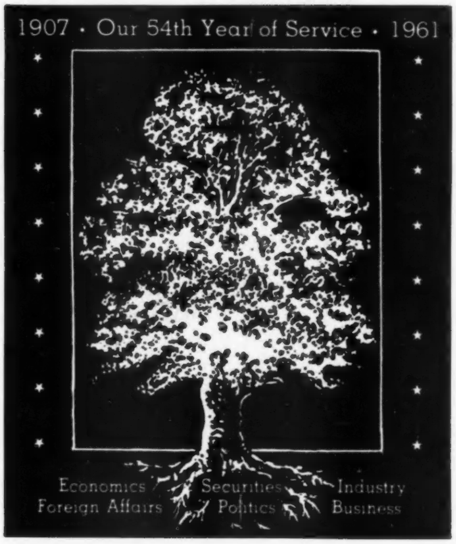
EUROPEAN REPRESENTATIVES — International News Co., Ltd., Breams Bldg., London E. C. 4 England.

Cable Address — Tickerpub



# THE MAGAZINE OF WALL STREET

C. G. WYCKOFF, *Editor-Publisher*


# The Trend of Events

**WHILE JUSTICE IS BLIND — SHE SEES CLEARLY WITH HER MIND.** That is something the Department of Justice in Washington should remember when it considers taking legal steps which frequently are harmful to our national interests—throw monkey wrenches into our economy—and are disadvantageous to the owners of American industry, who represent millions of our citizens, and who have just as much right to be protected as labor—the negro—and the other segments of our population.

In attacking American Telephone & Telegraph under the Anti-Trust Law, the Justice Department is blindly striking out against an organization that has made the greatest advances in communication that the world has known, towering far above anything Russia accomplished in the field of scientific discovery.

Instead of throwing obstacles in its path, A. T. & T.'s accomplishments should be given broad publicity, to let the people of the world know that the United States has the lead over the Soviet Union in this area — and thus prevent perpetuating the false impression Russia has been trying to create regarding the backwardness of our scientists and our achievements.

To acquaint the Justice Department with the enormous advantages of this communications breakthrough in creating productive activity for a large number of companies in a variety of industries—and what it means in terms of new jobs—we are presenting in this issue a rounded picture telling the story—"The Miracles of Global Communication via the Outer Space Highways" — and the companies in the industries to benefit — so they can see the breadth and scope of this effort. And know that by stifling this unique creative source, they are killing the incentive for research, forward-thinking and planning that could have a deleterious effect on our economy—our position in the chancellories of the nations around the world—and discourage investment in American enterprise so greatly needed, if we are to win out in the economic-financial struggle with Russia.

The stockholders who own A. T. & T. should demand that the law of reason prevail. That they should not be subjected to outmoded laws that were made when a few industrial barons owned the companies and ran them according to their own lights. This is not true today, and the Justice Department and our lawmakers should recognize the fact that corporate ownership has long since passed from the hands of the rugged individualists to the many millions of our citizens in all walks of life.

Living in the past legally can mean disaster for our economy in this revolutionary age, when the best brains and the most intelligent thinking are the basic essentials for survival.

*We call the attention of the reader to our Trend Forecaster, which appears as a regular feature of the Business Analyst. This department presents a valuable market analysis of importance to investors and businessmen. To keep abreast of the forces that may shape tomorrow's markets, don't miss this regular feature.*

## "THE FREEDOM DOCTRINE" IN DOLLARS AND "SENSE"

. . . It hasn't taken the new national Administration as much as half a year to set a course in the direction of bigger and bigger deficits. Now in the name of "The Freedom Doctrine" we are asked to endorse vast new federal spending including $7 to $9 billion to seize space leadership and put a man on the moon by 1970.

This new spending program, superimposed on an already gigantic budget of over $80 billions, has many implications for business and the securities markets. Our economy, now generally agreed to be in the early stages of a strong recovery phase, is to receive a massive inflationary shot in the arm. It would appear that the spending program will be in full swing at just about the same time that business is moving strongly out of the 1960 recession. Could it be that we are in for an unhealthy boom which will be followed by a bust—or by tighter governmental controls over wages and prices?

While there can be no objection to spending all that is needed for the defense of our freedom, it may reasonably be asked whether putting a man on the moon is an essential part of our defense. It may also reasonably be questioned whether we can afford all the spending for non-military purposes which has been proposed over and above purely defense expenditures. The Soviets have claimed that they can "bury" us without a shot being fired. Certainly if loose fiscal policy undermines the soundness of the dollar we can so weaken our economy and our position of world leadership that we will make their boast possible. The cause of freedom is not aided by unrestrained governmental spending programs which feed the fires of inflation.

**There is no crueler enemy of freedom than inflation which steals the fruits of men's labor by reducing the value of the money they receive whether in the form of wages, salaries or pensions.**

There is no escaping the fact that vast new governmental spending programs will have to be paid for in one form or another. It is eminently wiser, safer and in the long run more economical, to impose taxes, onerous though they may be, to pay for such programs than to weaken the currency by continued deficit financing.

**The next issue will contain an article which analyzes the significance of President Kennedy's new spending proposals and the opposing economic and fiscal theories of Dr. Arthur Burns, the former head of the Joint Economic Council, and Dr. Walter Heller, the present chief of that body, with an examination of possible effects of spending theories and policies on the various facets of business and finance, both national and international.**

## MILLIONS OUT OF WORK: MILLION OF JOBS UNFILLED.

One of the major economic problems in the United States today is the acute labor shortage. Millions of jobs are going begging for lack of trained people to fill them. As a result of this shortage, our economy is running at well under its full potential.

This is fact, not fiction. To be sure, the U.S. Department of Labor recently reported unemployment still over 5 million. However, there are no data available on the number of employment vacancies.

If such a tabulation were available, it probably would show that at least 5 million and possibly twice as many people were being sought. On Sunday, May 21, The New York Times carried over 25 pages of "Help Wanted". Many of these advertisements have been running week after week. While numerous positions—including some offering salaries of $20,000 and up—are unfilled, many thousands of people in the New York area are out of work and seeking employment. The same situation prevails in varying degree throughout the country.

Naturally, one thinks almost immediately of solving this problem in the same way that the emperors of China used to solve the problem of famine in one part of the country and over-abundant crops elsewhere. **Transportation was so poor that the food could not be moved to the famine area. So, the people in the famine area moved, which usually meant walking to where the food was.**

Unfortunately, the job vacancies-unemployment problem cannot be solved that simply. The unemployed steel worker in Pittsburgh or unemployed coal miner in West Virginia, with only a limited educational background, would have to spend years of study to be eligible for any of the numerous technical and semi-technical positions that are vacant. Similarly, the unemployed woman textile worker would need years of training to become a "Gal Friday".

The problem goes far beyond retraining and relocating some of those now unemployed. Nor will the problem of "sticky" unemployment be solved by artificial stimulation through increased government spending and federal budget deficits, as proposed by President Kennedy's economic advisors.

**The real unemployment situation, that is, the job vacancy situation, is well exemplified by a report of the U.S. Dept. of Labor on "hard to fill job openings", reported through state employment services.**

**Of these 17,500 job openings, which the state agencies could not fill despite high level unemployment ,there were 11,515 in professional occupations, 2,733 in skilled occupations, 1,677 in the clerical and sales field, 1,063 in service, 481 in semi-skilled occupations, and 20 unskilled. Openings in engineering aggregated 3,395.**

**The real root of the unemployment problem is the unsavory fact that we are turning loose into the "labor force" each year a very large number of poorly educated youngsters to join the ranks of unskilled workers for whom there is less and less work. Many of these youngsters have the native ability to acquire skills and professional attainment, but never do. In some cases, it is lack of guidance. In other cases, youngsters quit school early for economic reasons.**

**The Russians are far, far ahead of us in analyzing at an early age the potential of each youngster, and in guiding and helping him (or her) to attain that potential through education and training. In Russia, the main objective always is what is best for the state, rather than what is best for the people, but this is one area where we can learn something.**

For, insofar as we are wasting the full potential of our youngsters, we are giving the Russians the edge in the cold war.

In many, many cases, youngsters need just a little extra "push" to jump ahead. One of the most common complaints among businessmen goes like this: "She was a nice girl, neat and got along well with the others. A fast typist, too. But, I had to let her go. She couldn't spell worth a darn." END

## PRESIDENT KENNEDY CHARMS OTTAWA
## — BUT THE CANNY CANADIANS ARE "STILL THINKING ABOUT OAS"
### — The practical reasons for-and against membership

**A Report from Canada, by W. E. Greening**

The visit of President Kennedy to Ottawa may be regarded as a personal triumph which did much to efface the bad effect among many Canadians created by the bungling of his Administration in the Cuban invasion fiasco. Indeed, he may be said to be the most popular American First Executive in Canada since the era of Franklin D. Roosevelt.

Of the subjects covered by Mr. Kennedy in his address to the Canadian Parliament, by far the most important from the Canadian standpoint, was his frank invitation to Canada to join the organization of American States. Until recently, Canadian interest in political and economic developments in the regions of the world south of the Rio Grande has been very limited and successive Canadian Administrations over the past half century have not been enthusiastic about Canadian membership in the Pan-American Union and its successor, the OAS.

But during the past two or three years, this situation has begun to change. Canadian economic ties with several of the Latin American Republics and notably with Mexico, Brazil and Venezuela have been becoming increasingly close. The volume of Canadian trade with the Central American, the South American and the Caribbean Republics today is quite considerable, and there is a good deal of Canadian capital invested in this region of the world. The French-speaking citizens of Canada who make up more than one-third of the total population, feel close cultural ties with their Latin and Catholic cousins of the Rio Grande. The present Deifenbaker Administration in Ottawa has been showing an increasing interest in the activities of OAS, and Howard Green, the Canadian Minister of External Affairs, recently completed a tour of the several Latin-American capitals in which he received a very cordial welcome everywhere.

From the Canadian standpoint, the chief objections to Canadian membership in OAS at the present time are that Canada might become involved in disputes between the United States and Latin-American countries, and that she might be drawn into programmes of economic aid to some of these nations which might be beyond her present financial resources. Incidentally, this might be an objection of the Canadian Government to increased Canadian participation in the Organization for Economic Cooperation and Development which Mr. Kennedy also suggested in his speech to Parliament.

There remains, also, the vexed question of Castro Cuba—a question on which the Administrations at Ottawa and Washington have been at variance during the past year. It is noteworthy in this connection that Mr. Deifenbaker ruled out any possibility of his country acting as a mediator between the United States and Cuba. In the communique that was issued in Ottawa about the talks between the President and the Canadian Prime Minister, it was stated that the Canadian Administration was in agreement with Washington that the alignment of a regime in the Western Hemisphere with Communist leadership abroad was a matter for serious concern, but the Canadian Government did not indicate exactly how far it was prepared to go in support of Washington in the elimination of this menace.

Nevertheless, it may be said that Mr. Kennedy's speech has given a decided impetus in Canada towards closer relations with the OAS and it is quite possible that within the next few years Canada may become a member of that body in spite of some dissenting voices at home.

Another topic that was most certainly discussed by the two leaders was increased Canadian aid to NATO. Mr. Deifenbaker's statement on that subject should certainly serve to dissipate the idea that there is very great support of neutralism in Canada. Approval of these policies is confined at the present time to certain Canadian left wing political groups who have little or no influence on the shaping of Governmental policy in Ottawa.

Although no new decisions of the Canadian or the American governments came out of this visit, yet it may be said that it was helpful in that it served to dissipate certain misunderstandings which exist between the two countries at the present time and that it enabled Mr. Kennedy to get a clear idea of the Canadian attitudes towards some of these problems.

# Kennedy Inflation and the Market

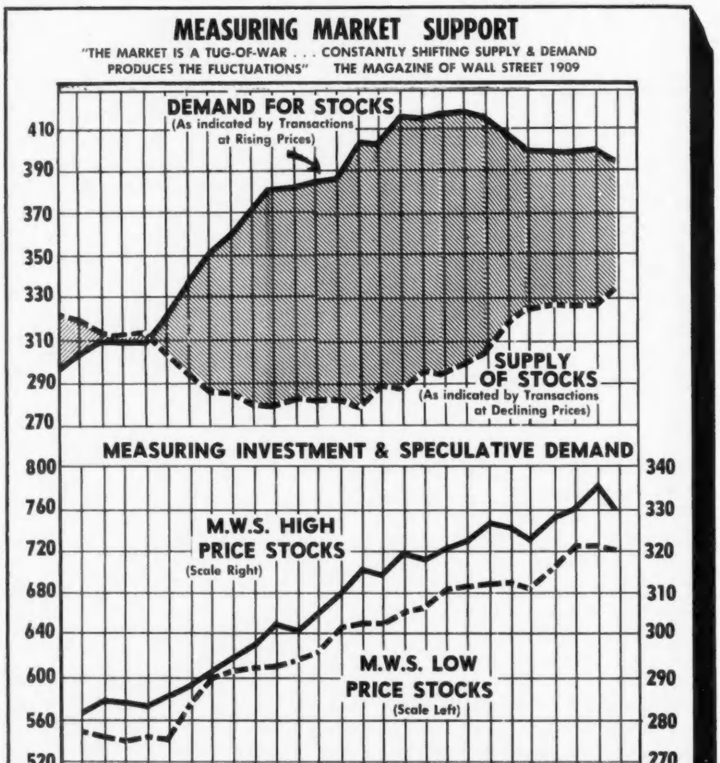
**While there is much evidence that the market rise should be slowed or halted until business recovery does some catching up with stock prices, the usually favorable summer season is near. More importantly, investors must now ponder the long-range inflationary implications of the Administration's increasingly lavish spending programs. A careful and selective policy remains in order.**

**By A. T. MILLER**

IN a relatively thin market, gyrations in stock prices were fairly moderate over the fortnight since our last previous analysis was written. Last week's performance was immediately influenced by corporate news developments, although foreign uncertainties loomed in the background.

Despite a Friday rebound, the price movement was downward on the week, but the dip cancelled little over half of the prior week's gain by the Dow Industrials. In that week the average had reached a new all-time high closing of 705.96 on May 19.

The spotlight news, coming shortly after noon last Monday, was the Supreme Court decision requiring du Pont to distribute its huge holding of 63,000,000 shares of General Motors over a ten-year period. What the market might otherwise have done is an interesting but academic question. It had been heading upward in the morning, with the average above 710 at noon, but the news brought a sharp dip by the close. Thereafter, market losses were extended by the announcement of the antitrust investigation of American Tel. & Tel. This was diclosed in a letter from the Justice Department, in reply to a complaint from the Telegraphers Union. Although the company felt that the investigation was no more than a routine inquiry resulting from a complaint, the list continued to lose ground through Thursday. Regardless of the importance of du Pont, General Motors and A. T. & T., this news could hardly have put the average down 27 points from Monday's highest intraday level to Thursday's low point, if the technical position had not been made somewhat vulnerable by prior advances which had run far ahead of the recovery in business.

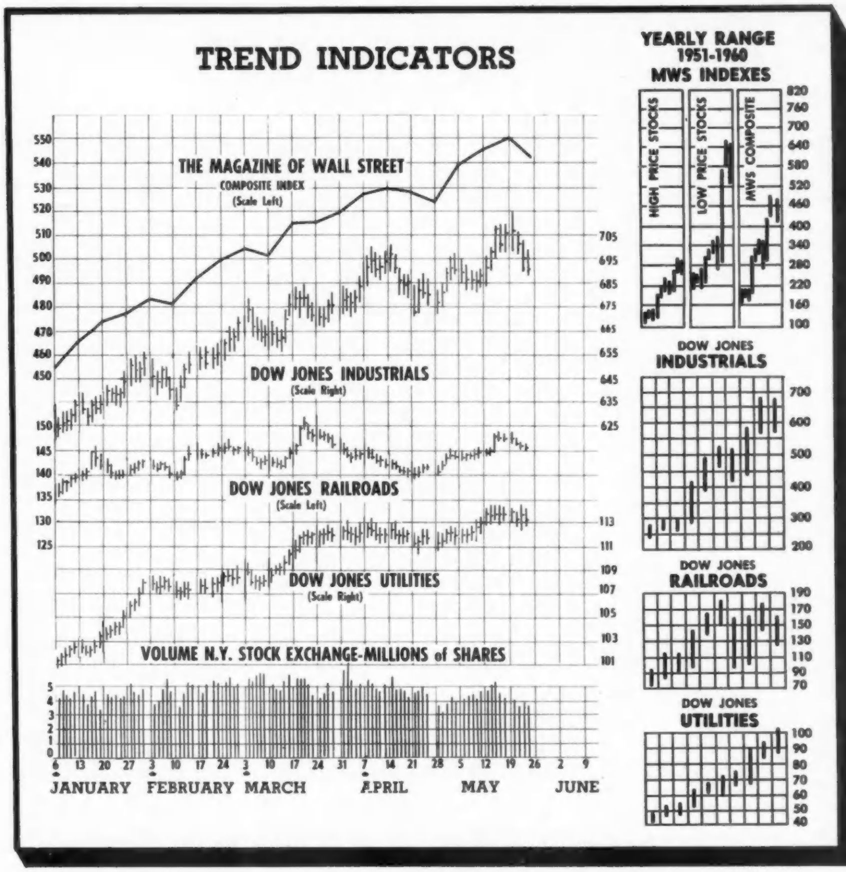



### Support Met Promptly

However, as with every other dip to date on the advance since last October, price concessions attracted buyers as selling pressure dried up. By Thursday, contrasting with a soft "average", more stocks were pointing up than down, leading to partial recovery on Friday, which was aided by news of a proposed 2-for-1 split by Texaco. Some short covering by traders, on the verge of a four-day holiday, probably was a factor.

Looking behind price performance, there has been a considerable toning down in the speculative enthusiasm evident earlier. Thus, maximum recent Big-Board share turnover was well un-

der that seen in early April. At the same time, as well as before last week's sell-off, there has been marked shrinkage of activity on the American Exchange and in the over-counter market, in both of which speculative excesses had become a matter of concern. As far as it goes, this slowdown is on the healthy side. So also is the partial shift in market leadership from "glamour" stocks to more conventional and reasonably priced issues.




It is a little early for the seasonal upward tendencies which have prevailed in varying portions of the summer period in the great majority of years. Consolidation or a degree of correction during the rest of June would strengthen the technical basis for a July-August rise. In the past, summer advances — measured from the May close to July or August highs — have been widest when stocks were rallying or rising from extremely depressed levels. In recent years, gains have been relatively modest.

More basic considerations are the quality and competence of our leadership at Washington in the conduct of foreign affairs and fiscal policy; the prospect of considerable inflation ahead and the question of how much and how soon it may affect commodity prices and the purchasing power of the dollar; and the outlook for business, corporate profits, money rates, etc.

For reasons that need not be cited here, Kennedy's judgement in foreign policy has come under question very early in his Presidential career — earlier than in the case of any other Administration in modern times. This gives rise to doubts about his ventures in personal diplomacy with de Gaulle and Khrushchev, especially the latter.

Kennedy's point of view on Federal programs and spending appears to be moving closer to the "New Deal" policies. That was so of his latest "State-Of-The-Union" message to Congress. It spoke vaguely of "sacrifices" to meet the Communist threat to our survival as a free people — but suggested no sacrifices in unessential Government programs. We must spend more on everything: defense, welfare, handouts and space exploration, etc. Billions and billions in the next five years — on this the figures might as well be pulled out of the hat — just to "try to get a man on the moon and back." It is no longer a figure of speech to say the limit on Federal spending seems to be the sky.

As recently as March the President estimated the deficit for the fiscal year starting July 1 at a little over $2.8 billion. He now puts it at $3.5 billion. There is some good opinion at Washington that it may well exceed $5 billion. Now projected at $85 billion, outlays could readily approach or even exceed $100 billion within a relatively few years. In New-Deal style, hope is expressed that economic growth, spurred by the Federal programs, will provide the revenues to balance the budget at some unknown time.

**Business And Profits**

The business news is mostly good, especially in regard to trends in manufacturers' new orders, sales and inventories. Steel activity has risen further. However, retail trade is still sluggish and housing starts are down. This is primarily because immediate demand for single-family houses has been largely filled. Thus, minor cuts in mortgage costs are unlikely to spur demand. The verdict of the bond markets is that it is only a question of time before long-term money rates rise.

The annual-rate of industrial profits will probably show a good gain from the low first-quarter level to the final 1961 quarter. But, even so, representative industrial stocks are still selling at a high multiple of earnings while immediate upside market potentials are conjectural and a serious decline is not indicated at this stage. Investors have long been reluctant to liquidate sound stocks and Kennedy's spending proposals make them more so. — Monday, May 29.


★

# NEW HORIZONS IN INTERNATIONAL FINANCIAL COOPERATION

By JACK BAME

► **Measures being taken to stabilize monetary units and transactions between the Western nations — and the effect on the various countries involved in stabilizing their own currencies in relation to the dollar**

► **Operations in process of a temporary character — and the various new proposals designed to strengthen the West financially, economically and militarily**

A RECENT statement of General John B. Medaris, one of our outstanding pioneers in outer space projects—and ironically no longer in active government service—might at first glance seem out of place at the beginning of an article on international financial cooperation. Actually, it is most appropriate. In effect, he stated (in reference to our outer space program and competition with the Soviets) that we must have an intelligently planned "straight line" approach, involving a series of successive specific goals to be reached as part of an integrated program. This is in contrast to shooting for the achievement of single isolated projects, after each of which there would be (and often is) floundering around, a lack of direction and a loss of precious time in deciding what to do next. The need for evolving an integrated program in the monetary field is, to say the least, just as necessary.

**The 1961 Monetary Background**—Certainly it must be clear that finances will play a crucial role in the scientific-military race with the Soviets, whether looked at from a competitive or a survival angle. Weaknesses in the structure of any leading free world member's economy or currency are detrimental to all. Short-run pressures on key monetary units can intensify existing economic difficulties, making an orderly and gradual correction difficult or even impossible to achieve. Britain's pound sterling and the U. S. dollar, both periodically suffering from balance of payments problems while at the same time serving as the basic units for most of world trade and finance, have come under severe strains in recent times. "Runs" on these currencies have indeed been blown up out of proportion to

actual difficulties, by speculative movements of international funds anticipating possible devaluation. During the same period, a few Western European currencies—notably the German Mark—have been in a position of constant payments surpluses, swelled by the inflow of short-term capital.

Within this framework the program of mutual defense and economic assistance to underdeveloped areas—with the major burden on the U.S.—had to continue, both in the self-interest of the West and as a matter of moral responsibility. But the redistribution of economic and military strength among the Western nations, together with the fact that some of them were experiencing recession while others were enjoying a continuing boom, required financial authorities to stop, look and listen. Adjustments adapting to changed conditions had to be effected, and measures taken to implement better Free World financial coordination.

### Techniques and Organizations Utilized to Promote Cooperation

Considerable progress has been made in meeting this challenge, although much remains to be done. Several of the more significant moves already taken are:

1) **The upward revaluations of the German Mark and the Dutch Guilder** in March. Although motivated to a large extent by internal conditions, these upward adjustments in currency value—a decidedly rare action—also represented an effort toward achieving a better international payments equilibrium. The monetary revision in West Germany was designed to make the exports of that country more expensive and imports cheaper. German goods will cost more in terms of foreign currencies, while importers would have to surrender a smaller number of Marks to pay for incoming goods. This would automatically contribute toward a better trade balance.

**CURRENCIES DRAWN BY I.M.F. MEMBERS TO MARCH 31, 1961**

**(Millions of U.S. Dollars)**

| | |
|---|---|
| Argentine pesos | 16.0 |
| Belgian francs | 11.4 |
| Canadian dollars | 15.0 |
| Danish kroner | 0.8 |
| Deutsche mark | 159.6 |
| French francs | 27.5 |
| Dutch guilders | 27.5 |
| Italian lire | 15.0 |
| Pounds sterling | 314.9 |
| U.S. dollars | 3,243.3 |
| Total | 3,831.0 |

But another objective, the desire to halt the inflow of short-term funds into Germany, was not accomplished, as betting on the further upvaluation of the Mark immediately made it a speculative favorite. Similar activity extended, in a lesser degree, to the Swiss franc, Italian lira and even the French franc. Short-term funds, which had been invested at hitherto satisfactory rates in London, were withdrawn in large amounts, putting new strain on Britain's pound sterling, already subject to a basically unfavorable payments situation.

2) **The "Basle" Arrangement among European central banks followed,** coming to the rescue of the pound. Under this agreement these institutions apparently drew up an informal "stand-by" plan to meet the immediate emergency. **This involved holding on to sterling balances which had flowed in to their tills as the pound was offered for other currencies, rather than presenting them for gold in London and thus further draining England's gold and convertible currency reserves. Accordingly, the published U.K. reserve figures, although reflecting losses of over $173 million in March and about $77 million in April, have not revealed the full extent of the withdrawal of funds from London. The latter was estimated to have totaled about $620 million in March and an additional $140 million in April. Without central bank cooperation, these withdrawals might have led to an even greater speculation against the pound, with snowballing effects, that could even have threatened a devaluation of sterling.**

**The dollar, too, was helped, since it often served as an intermediate currency in switching into Marks, and some dollar holdings were also being converted to German currency.**

Thus, the advantage of such an agreement, to help provide immediate protection for a "raided" currency, are obvious. But it does not provide any permanent solution to the underlying payments imbalance. **The arrangement was evidently hastily agreed to after the Mark revaluation, and must be regarded only as a stop-gap measure, until further cooperative agreements or revisions in the global payments structure can be effected. No single country (or central bank manager) can be expected to add to its reserve holdings of a particular foreign currency indefinitely, on a unilateral basis, if that monetary unit has a structural weakness.**

3) ***Other techniques* which have been utilized recently and are operative today are numerous. In the case of the British pound, *the Bank of England has been intervening in the forward exchange market*, as well as acting more aggressively in spot exchange transactions, to help keep the present rate of sterling firm and prop the rate for one month to three months delivery.**

4) ***Official central bank and rediscount rate changes* are no longer dictated by purely domestic considerations. German, French and British short term money rates have dipped, at least in part with an eye towards taking some pressures off the dollar by presenting less of an incentive for the withdrawal of short term funds from New York to take advantage of higher rates available overseas.**

Simultaneously, Washington has been attempting to set a floor on interest rates for Treasury bills, to solve the same problem in a positive manner. Cooperation in this area is limited, however, by the relative phase of the business cycle in each country involved and by political restraints upon fiscal policy.

5) **Prepayments of external debts to the U.S. by economically strengthened countries,** to bolster the unfavorable American balance of payments. Especially significant was the part payment—believed to be 15%—to the U.S. by West Germany of a $587 million loan maturity in marks rather than in dollars. These marks are now available for use at our government's discretion to offer in foreign exchange markets at a possible time when heavy demand for German currency and a flight from the dollar may reappear.

| GLOBAL MONETARY RESERVES OUTSIDE THE U.S. & U.K. In Per Cent of Imports | 1913 | 1928 | 1938 | 1959 |
|---|---|---|---|---|
| Gold | 32 | 29 | 51 | 23 |
| Foreign exchange | 3 | 16 | 11 | 24 |
| Total | 35 | 45 | 62 | 47 |

Source: Robert Triffin, "Some Statistics on Gold and the Dollar Problem."

These devices, to be sure, present no radical departure from the framework of our present world monetary and payments system, but do illustrate the necessity for flexibility and cooperative leadership.

### The International Monetary Fund

The international financial institutions have similarly been experiencing a gradual and largely unnoticed adaptation to changed conditions. The International Monetary Fund, for example, is still operating under its 1947 framework, designed to meet the problems of a past era. Many innovations have, however, been rather successfully instituted, the scope of operations has been widened and resources considerably increased. Aggressive action on the part of the Fund really began only with its decisive and large scale action taken during the Suez crisis, at the end of 1956. More recently, larger use has been made of non-dollar currencies available for drawing from the Fund. This includes a $175 million loan to Australia last month, which was issued in Canadian dollars, German marks, pounds sterling, French francs, Dutch guilders and Italian lira, as well as U.S. dollars.

Such flexibility would not have been possible prior to the decreeing of external convertibility for these Western European monetary units at the end of 1958. But this tendency should not be exaggerated; of the 70 member country currencies held by the IMF at the end of March, 1961, only 10 had been utilized for drawings. The remainder are of no true international value and their possession actually limits the Fund's lending flexibility. The table on page 301 shows the currencies drawn by IMF members to date.

A special stand-by agreement has also been reached by the Fund with West Germany, to provide additional marks for lending as needed when it would be disadvantageous to draw upon the pound and the dollar. Broader new plans have been proposed but as yet the basic structure of the Fund remains unchanged.

### Common Markets May Lead to "Regionalization" of Currencies

***The European Common Market and Free Trade Area*** may lead to a natural evolution toward more regionalization of currency policy among the countries involved. This would make an eventual major reform in the world's monetary and payments structure a less bitter pill to swallow by those countries still jealous of their national sovereignty. It should be realized, however, that this would be a long and gradual process, apt to be interrupted by crises and outbursts of economic nationalism. **But with recent moves toward Common Market rapprochement with the British, and closer agreement between de Gaulle and Adenauer, more regional monetary coordination is indicated.**

**Arrangements between private firms in various countries should also accelerate this process through the resultant closer ties between capital markets. Just this past month, two large commercial vehicle producers—Saviem of France and Henschel of Germany—agreed to cooperate in the development, manufacture, sale and servicing of their respective products, and Peugeot in France has also been pushing for similar machine industry tie-ins. This trend affords a solid base for international coordination, working up from the level of the individual business firm on to the nation and then perhaps to the region.**

### Other International Organizations

***The O.E.C.D. (Organization for European Cooperation and Development),*** consisting of 20 nations, including both Common Market and Free Trade Area members, plus the U.S. and Canada, by its very existence indicates the growing realization that only artificial concepts now separate the economic problems of North America and Europe. While no clear-cut mechanism for financial cooperation results immediately from this new organization, it affords a convenient and constant forum for the introduction and discussion of problems and new ideals. **A major service will be the formulation of a cooperative development assistance program, with chances for a more equitable sharing of the foreign aid burdens among its members.**

***The World Bank (IBRD),*** too, is taking part in the drive toward more coordination of aid and larger use of Western European currencies on an international basis. The third public offering of World Bank bonds in the Netherlands is scheduled for the end of May, bringing the total of such guilder bonds to about $33 million. As of mid-March 1961, the outstanding funded debt of the Bank was $2,182 billion, of which $1,702 billion was in U.S. dollar bonds and notes. The rest was represented by marks, sterling, Swiss francs, Canadian dollars and Belgian francs.

### Our Loss Has Been Other Countries' Gains

The U. S. balance of payments situation is not merely of particular interest to us but has been largely determinative of the overall Free World trade and payments picture. **Much of the international liquidity during the 50's was derived from the U. S. balance of payments deficits. Specifically, nearly 65% of reserve increases outside the U. S. were provided by American gold losses and the rise in foreign official dollar balances. From this point of view, the U. S. payments imbalance was an important source of financial strength for other countries.**

But the United States cannot afford to run such deficits indefinitely or allow sharp adverse short-term fund movements to take place without corrective action. And, fortunately, with the recovery of Western Europe and the return to convertibility of other currencies such drains are no longer necessary. Consequently, definite measures are being introduced to minimize, and perhaps eliminate, the American payments imbalance.

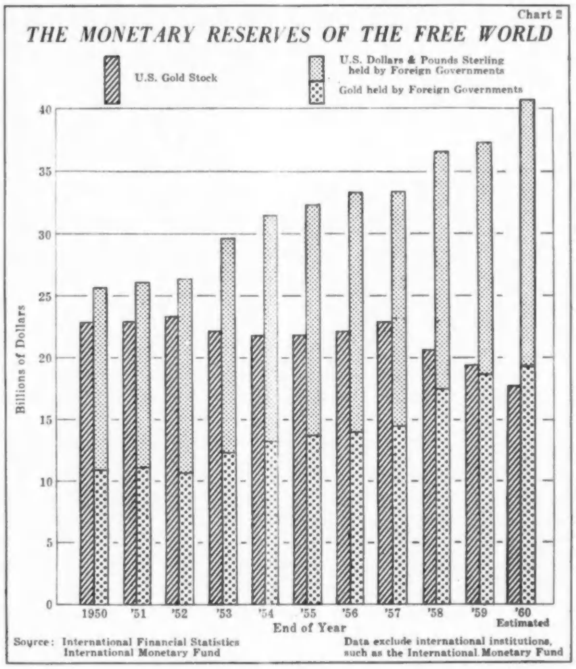
### No Answer Yet

Progress has been made, although no solution has

as yet been found, in correcting the estimated "basic" deficit of about $1.5 billion. The first quarter 1961 figure has been placed at an approximate overall deficit of only $300 million, but imports are expected to rise further as business activity in the U.S. expands. A recent Department of Commerce release showed that there is still no reason for complacency, stating . . . *"it (the U.S. balance of payments) reflects several developments which suggest that the overall balance of payments continues to be vulnerable . . . the conditions underlying these (short term) capital movements have not yet been fundamentally changed."* Many moves have been proposed by the administration as payments correctives, some with obvious merit, others more debatable, and most await Congressional action.

**The renewed move to abolish the 25% required gold backing for U.S. currency and member bank reserves with the Federal Reserve Board** has attracted considerable publicity—too much, in the opinion of the writer. Proponents of the measure have *not* labeled it as a cure for the payments deficit, as some opponents have hinted.

**The real question is the timing of the move, so as not to cause any reverse psychological reaction against the dollar, should the action be interpreted overseas as a sign of weakness.** The question of the reserve requirement itself is an academic one except for the uncertainty regarding foreign psychology. Since most West European countries (except Belgium and Switzerland) and Canada have long since abolished any obligatory domestic gold cover for their currencies, it is only logical that we should follow their example.




This step should be taken, however, only at a time of dollar and general payments strength, and be divorced in every apparent way from the correction of our payments deficit. **The 25% gold cover requirement is merely an archaic regulation, which should be removed at the first opportune time. In fact, all gold coming into the world monetary circuit should be sold only to the International Monetary Fund and central banks, to serve its present purposes as a means of settling balance of payments deficits and as a base for international liquidity.**

### Some New Plans for the International Monetary, Trade and Payments Network

Many suggestions have been popping up in the past few years for meeting new demands on the global monetary structure. *The "Triffin Plan"* (proposed by Dr. Robert Triffin of Yale) for a world central bank was reviewed in detail in this magazine on July 16, 1960 ("Two New Plans for Monetary Stability") and has been receiving more and more attention since then. It is based on the assumption that the "key" currencies—the dollar and the pound sterling—cannot continue to provide the needed amounts of international liquidity (foreign exchange reserves which can be used internationally), even with the addition of newly produced gold, for an expanding world trade.

**In capsule form, the program of Prof. Triffin advocates replacement of both the dollar and sterling (which he thinks ultimately would be seriously weakened) as international reserve currencies by a system of international deposits with the IMF.** This would initially include a pooled minimum of 20% of individual country gross monetary reserves, guaranteed against devaluation and carrying interest. Eventually, most foreign exchange reserves would be converted to internationalized fund balances. The IMF would make loans against such reserve deposits, limited each year to an amount which would increase total world reserves from 3% to 5%.

**The Fund, under the Triffin Plan, would assume certain short term investment holdings of central banks in London and New York and could shift among these and to other investments desired, to a maximum extent of 5% per annum.** Fund earnings from loans and investments would be distributed among members on a pro-rata basis according to balances held in the IMF.

This plan has its obvious advantages, perhaps offset by the fact that it involves the yielding of a considerable degree of national monetary sovereignty, reduces political influences, is rather complicated and represents a sharp departure from established patterns—always a handicap to any new scheme.

***The Bernstein Plan*** (proposed by Edward M. Bernstein, former IMF Research Director) is a less radical approach and is based on the premise that present international liquidity is sufficient to carry on an expanding world trade. Bernstein proposes a "Reserve Settlement Account", following the general pattern of the Basle Agreement. Leading Fund members would buy gold-guaranteed Fund notes up to specified amounts. If reserves of one country were rising and a deficit nation needed that currency to help counteract a sharp outflow of funds, the former would be called upon to take up its subscription, in effect, lending its currency to the deficit country. If the creditor nation's position deteriorated, it could redeem its notes and borrow other surplus currencies.

Subscription figures of $3 billion for the U.S., $1.5 billion for the U.K. *(Please turn to page 344)*

# THE MIRACLES OF GLOBAL COMMUNICATIONS VIA THE OUTER SPACE HIGHWAYS

## *— And the companies involved*

By ALFRED R. ZIPSER

- ► **The unique accomplishments of A. T. & T. — the planned satellite communications system by companies already in the field, including International Tel. & Tel. — Radio Corp. — and possibly Western Union in the new ruling by the F.C.C. which would tend to shut out Lockheed Aircraft — the formidable outsider, General Electric Co. — and possibly General Telephone & Electronics Corp.**
- ► **The broad advances signified for data processing — radio — and television companies . . . possible adverse effects of Telpak on Western Union**
- ► **Participation of medium and smaller companies in this vast program — creating an enormous reservoir for new jobs — its significance for the investor**

FREE, competitive American enterprise is about to pierce the vast reaches of space to maintain its undisputed world leadership in communications.

A number of pioneering companies stand poised to make the hundreds of forms of global communications as commonplace and as inexpensive tomorrow as is today's telephone call to a neighbor down the street. Orbited space satellites will constitute the heart of this coming peaceful revolution in communications.

The revolution will be a quiet one. While the Russian government and its scientists trumpet their space accomplishments at every opportunity, American engineers are readying plans for launching the satellites and maintaining them in orbit with little or no fanfare.

Once the satellites ply their endless fixed paths around Mother Earth, all forms of electronic communication launched from any point on the ground will "bounce" off them almost instantaneously and

## World Telephones by Continental Areas
### Data at January 1st

| Area | Number 1960 | Per Cent of World | Per 100 Population | Total Number of Telephones in Service 1959 | 1958 | 1957 | 1955 | 1950 |
|---|---|---|---|---|---|---|---|---|
| North American | 76,036,400 | 56.9 | 38.7 | 71,799,300 | 68,484,000 | 64,720,700 | 56,691,700 | 43,423,700 |
| Middle America | 1,008,000 | 0.7 | 1.5 | 910,800 | 835,900 | 772,800 | 700,300 | 523,900 |
| South America | 3,145,900 | 2.4 | 2.3 | 2,999,600 | 2,845,000 | 2,695,300 | 2,422,900 | 1,657,000 |
| Europe | 40,340,900 | 30.2 | 7.0 | 37,598,100 | 35,218,700 | 32,510,000 | 27,787,000 | 20,299,000 |
| Africa | 1,904,500 | 1.4 | 0.8 | 1,768,600 | 1,663,200 | 1,546,100 | 1,247,400 | 805,600 |
| Asia | 8,110,000 | 6.1 | 0.5 | 6,855,700 | 6,062,500 | 5,229,500 | 4,261,200 | 2,468,400 |
| Oceania | 3,054,300 | 2.3 | 18.7 | 2,867,900 | 2,690,700 | 2,525,600 | 2,189,500 | 1,522,400 |
| WORLD | 133,600,000 | 100.0 | 4.6 | 124,800,000 | 117,800,000 | 110,000,000 | 95,300,000 | 70,700,000 |

**with utmost efficiency to any other point on the globe's surface—no matter how remote.**

**A telephone call** from New York to Paris will be as cheap as one from New York to Detroit today. Reception will be as good. The conversationalists at Times Square and on the Champs Elyseés will be plagued by none of the static and other audible disturbances that beset present earthbound intercontinental telephony.

**Television programs** originating in studios in the United States will flash crystal pictures and accompanying flawless sound for the enjoyment of set owners in Tokyo.

Less spectacularly but fully as importantly, lightning-like calculations of the latest **electronic computer systems** will be transmitted in seconds all over the world over the space satellite route. All the world's business organizations will share in the revolution in office output, procedure and management made possible by electronic devices produced by companies financed by American private investment.

This country's private investors should see substantial returns when space satellite global communications are established. Revenues and resultant net income now limited primarily to earth-bound United States operations should increase enormously once substantial expenditures involved in getting started in space have been written off. Higher dividends to stockholders in space communication companies would then seem inevitable.

### The Companies Involved

The big question in space satellite global communication is, of course, "How soon?"

Frederick R. Kappel, president of the **American Telephone and Telegraph Company**, says that his organization will have the first of its proposed network of satellites in orbit "by Christmas" if the National Aeronautics and Space Agency acts promptly in supplying a launching vehicle.

A. T. & T. holds a commanding lead in the race for global communications via orbited satellites. This nation's communications colossus already has microwave frequencies (electronic paths essential to "bouncing" all communications signals off satellites) assigned to it by the Federal Communications Commission. All that remains is to orbit the A. T. & T. satellite network and keep it working.

**The new F.C.C. decision of May 24th, under which only international communication companies are to be permitted to participate in the satellite venture, seems to shut out General Telephone and Electronics Corporation, as well as Lockheed Aircraft Corporation, who as a veteran in supplying means of penetrating space, had expected to provide the industrial team's launching vehicle.**

**General Electric**, a formidable contender in the field of space communications, might also be shut out, but this company, wanting to be counted in, has organized Communications Satellite Incorporated, and invited a number of other companies to join them in the task of setting up a world-wide communications satellite system. G. E. would have other concerns as well as the Government participate, with no one owner including G. E. itself, holding more than 10 per cent of the stock in the common enterprise.

Another probable major entrant into the field of space communications is the **International Telephone & Telegraph Company.** Smaller companies by the score have indicated their intention to participate directly or indirectly in the drive by American private enterprise to make voice and non-voice communications world-wide.

### And Now the Advent of Telpak — Its Significance For Western Union

**The newest of multitudinous A. T. & T. ground services in the field of communications will be adapted for space transmission soon after the company orbits its network of satellites. This is the fabulous Telpak.**

**Telpak, as its name implies, is a "packaged" offering of long distance point-to-point communications services in almost incredible variety. A few customers are already getting this service, but Western Union has filed a strenuous protest with the FCC and a favorable ruling from that body is required before A. T. & T. can offer Telpak for general use.**

**► At a single, relatively low rate, Telpak will provide its business organization customers with private leased wires that contain from twelve to 240 simultaneous two-way telephone voice communications facilities. This is only the beginning of the Telpak communication workhorse.**

**► Over the same private leased wires and for the same rate will flow two-way transmission of facsimile, teletypewriter operations, electronic data**

## 7 Companies With a Stake in New Communications Advances

| | 1959 Total Revenues (Mil.) | 1959 Net Earnings Per Share | 1960 Total Revenues | 1960 Net Earnings Per Share | 1st Quarter Earned Per Share 1960 | 1st Quarter Earned Per Share 1961 | Dividends Per Share 1960 | Dividends Per Share 1961 † | Price Range 1960-61 | Recent Price | Div. Yield |
|---|---|---|---|---|---|---|---|---|---|---|---|
| American Tel. & Tel. | $7,393.0 | $5.19 | $7,920.4 | $5.43 | $1.32[3] | $1.36[3] | $3.30 | $3.60 | 130 -79⅞ | 126 | 2.8% |
| General Electric | 4,349.5 | 3.17 | 4,197.5 | 2.25 | .60 | .48 | 2.00 | 2.00 | 99⅞-60½ | 67 | 2.9 |
| General Tel. & Electr. | 1,081.0[1] | 1.08 | 1,178.4[1] | 1.02 | .26 | .22 | .75 | .76 | 34⅛-23½ | 28 | 2.6 |
| International Tel. & Tel. | 741.7 | 1.77 | 811.4 | 1.95 | .38 | .42 | 1.00 | 1.00 | 60⅞-32 | 57 | 1.7 |
| Lockheed Aircraft | 1,304.2 | 1.21 | 1,332.2 | d5.80 | .38 | .59 | .30[2] | — | 45⅝-18⅝ | 42 | — |
| Radio Corp. of America | 1,388.4 | 2.59 | 1,486.2 | 1.93 | .85 | .68 | 1.00[2] | 1.00[2] | 78⅜-46½ | 63 | 1.5 |
| Western Union Tel. | 276.1 | 2.59 | 276.0 | 1.80 | .43 | .36 | 1.40 | 1.40 | 57 -38¼ | 47 | 2.9 |

d—Deficit.
†—Based on latest dividend reports.
1—Combined Tel. & Mfg. subsid.
2—Plus stock.
3—3 months to Feb. 28.

**processing interchange and even closed circuit television. Telpak appears to be A. T. & T.'s definitive answer to private microwave communications operating outside its gigantic private wire lines.**

**Western Union,** faced with stiff competition to its private leased wire facsimile and private microwave communications services by Telpak, has asked the F. C. C. to disallow the rate filed with them by A. T. & T. for the all-inclusive communications service. Failure by the commission to grant the Telpak rate request would effectively delay offering the service although it is difficult to see how Telpak can be halted permanently.

Western Union contends that the rate for Telpak is too low to permit profitable operation of all the services offered. Initial losses on Telpak, according to Western Union, would be offset by what amounts to a subsidy from the enormous revenues received by A. T. & T. from its public telephone services and other non-Telpak activities. Then, Western Union continues, Telpak, with its exclusive voice communications protected by A. T. & T. patents would eventually drive out of business other private wire common carriers unable to supply voice services.

The Commission has not yet ruled on the controversy. But even an adverse decision against Telpak cannot hold up the service forever.

And so Telpak, along with other A. T. & T. communications services will whir through space when the company gets its satellite network going.

### The Giant A. T. & T. to Go it Alone

The A. T. & T. project is a formidable undertaking. It will require investment of $170,000,000 to launch and maintain the company's proposed fifty repeater satellites in their random orbits 7,000 miles above the North and South Poles and to keep in top condition the twenty-six transmission and receiving stations scattered all over the world.

**Mr. Kappel has said repeatedly that his company will bear the huge expense of inaugurating a satellite communications system entirely on its own, with no help from the Government. In return, the company expects to keep all future profits from the unprecedented enterprise.**

The A. T. & T. willingness to go it alone (neither R.C.A. and its associated companies nor General Electric have said that they want no Government funds for their projects), is neither arrogant nor thoughtless. Painstaking research by the company's financial experts, as well as top Bell System scientists, have made it clear that the $170,000,000 will come back a hundred fold on a long term investment basis.

In testimony before the F. C. C., Charles M. Mapes, assistant chief engineer for A. T. & T., said recently:

*"The indications are that telephones in the United States will increase to 235,000,000—three times the number in use today—and that long lines messages will increase to about 2,500,000,000—five times today's volume—by the year 1980.*

*"Similar calculations for world telephones and overseas messages have been made," Mr. Mapes continued. "They show a total outside the United States of almost 265,000,000 telephones, or about seven telephones per 100 population. Adding the 235,000,000 calculated for the United States gives a world total of half a billion telephones in 1980."*

In the field of telephony alone, Mr. Mapes showed that such expansion could not possibly be handled on ground and oceanic facilities expanded to their utmost. There is only one answer—the limitless stretches of space.

### The Enormous Revenues Involved

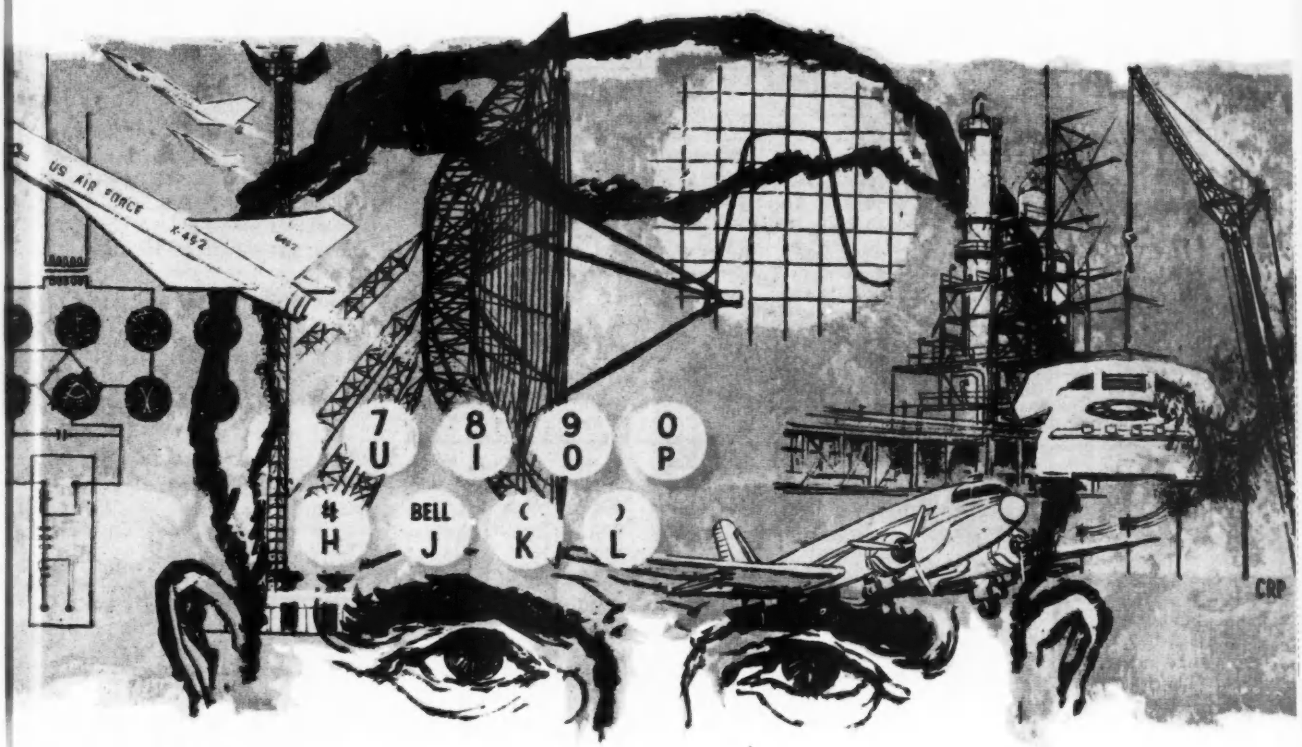
In telephony alone, A. T. & T. is the acknowledged world master of manufacturing and technical know-how. Revenues flowing to the company from world-wide telephone service in the future will dwarf the initial $170,000,000 laid out.

In addition to enormously increased telephone income, A. T. & T. coffers will be swelled by fantastic revenues derived from global television projected over its facilities in space. Finally, it is anybody's guess as to the eventual huge extent of income flowing from new electronic business communications devices that are being improved on almost daily.

Does this mean that A. T. & T. will have a monopoly on all forms of global communication sped by space satellites? Not at all.

### The RCA Group Program

**R. C. A., although far behind from the viewpoint of a start into private space satellite communications preparation, is be-** *(Please turn to page 348)*




*New and up to Date . . .*

*Revealing Study*

# WHAT "INSIDERS" ARE SELLING AND BUYING . . .

## Through Market Transactions and Secondaries

***— Tells Us About the Companies — About the Future***

**By ROBERT B. SHAW**

WHILE Insider Transactions have risen at an accelerated pace in the past several months, the bare fact that sales are currently running three times as heavy as insider purchases should not be given exaggerated significance, for sales normally show a heavy preponderance over purchases, especially when bonus and option acquisitions are excluded from the latter. To be realistic, insider data has to be interpreted in the light of the prevailing background, not in a vacuum.

During the first quarter of 1961, daily turnover on the New York Stock Exchange was running at an average of 4,838,000 shares — the highest rate of activity since 1929. It is significant that this fever has not extended to the corporate insiders. To be sure, purchases have recovered from their dip in the final quarter of 1960 to around 50,000 shares a month during the first quarter of the present year — all in terms of our coverage of 200 leading manufacturing companies — but show no signs of unrestrained exuberance. Sales, at 182,000 shares in January, 145,000 in February and 146,000 in March, are likewise at a high level.

Several very large individual liquidations have also been excluded from the sales just reported, as they could be regarded as distortions of the data supplied by the larger number of small and medium-size transactions. Still the significance of their timing should not be disregarded. Further, many executives are tardy in reporting their transactions; on the basis of recent experience such delayed returns are likely to lift the sales total still higher.

The relatively heavy volume of important **secondary offerings** during the first quarter also provides

| IMPORTANT SECONDARY DISTRIBUTIONS First Quarter 1961 | Offering Date | No. of Shares (Thous.) | Offering Price | Sold by | Recent Price |
|---|---|---|---|---|---|
| Rohm & Haas | Jan. 3 | 40 | 615 | Est. of Otto Haas | 560 |
| Pocket Books | Jan. 5 | 570 | 26 | Leon Shimken, J. M. Jacobson | 38 |
| Reeves Soundcraft | Jan. 17 | 150 | 6⅜ | Prudential Insurance Co. | 9 |
| Emerson Electric | Jan. 26 | 54 | 55¼ | Not disclosed | 82 |
| Aetna Life Ins. | Feb. 28 | 219 | 102 | Travelers Insurance Co. | 114 |
| Gen. Amer. Trans. | Mar. 20(R) | 36 | | Former owners of Infilco | 75 |
| Harcourt Brace | Mar. 24 | 101 | 38½ | Not disclosed | 39 |
| Kaiser Aluminum | Mar. 30(R) | 284 | | Former holders of Kawneer | 47 |
| Travelers Ins. | Apr. 4 | 158 | 115 | Aetna Life Ins. Co. | 125 |
| Goodyear Tire | Apr. 5 | 203 | 36⅜ | Not disclosed | 40 |
| McGraw Hill | Apr. 5 | 214 | 40⅞ | Not disclosed | 35 |

R = Registration date. Sale not yet consummated.

corroborative evidence that many insiders considered it wise to lighten commitments, accepting a good profit rather than speculate on the hazards they felt inherent in the situation. To be sure, the continuously rising market has already rewarded the purchasers of some of these issues generously, but then buyers under these circumstances assumed the risks involved.

But the clearest signal is being given by insider transactions in the glamour stocks. In contrast with the conservative companies included in our 200-stock index, for most of which very low rates of insider activity are typical, the speculative fliers are now being very heavily sold by their own executives, with only negligible offsetting purchases.

### Background on Insider Transactions

Regular readers of this series will be quite familiar with the background on insider transactions, but a brief review may be helpful. "Insiders" are corporate officers, directors or holders of 10% or more of any equity issue. Since 1934 they have been required to report transactions in their own stocks to the SEC which, in turn, publishes the data in its monthly *Official Summary*.

The insider transactions have significance in terms both of individual issues and the economy in general. It is often frustrating, however, to try to read meaning into the raw figures. Long delayed reporting is commonplace — although promptness has improved since the present articles were inaugurated. It cannot be assumed that investment judgment alone dictates all transactions; various other motives may intervene.

Certainly, this information will be of no value to the speculator. But experience has shown that long-sustained trends of buying or selling by insiders usually reflect a company's basic outlook well in advance and thus provide a useful guide to outside investors. To translate the monthly reports into a more systematic form we have composed an index of the 200 largest manufacturing companies — making substitutions for a few in which public interest is relatively limited.

### March Quarter Transactions

Let's look at insider transactions for the first three months, as shown in the accompanying table.

As already stated, insider sales are invariably heavier than purchases, as many corporate executives acquire their holdings by the exercise of options, inheritance, or purchase before they reached executive status. Meanwhile, the natural processes of retirement, death and diversification create a steady pressure of liquidation. Even so, the present heavy excess of sales carries a realistic message.

The figures just given also exclude certain large individual transactions, viz. the sale of 45,000 shares of **Burlington Industries** and 34,400 shares of **Minnesota Mining** in January, 21,000 shares of **Brunswick Corp.** in February, and 35,000 Brunswick, 38,000 **General Dynamics** and 30,000 **Tennessee Corp.** in March. (More specific comments on these issues will be made later). Inclusion of these sales would, for example, have lifted the March total to 249,110 shares, well above the top of the accompanying chart. On the buying side the only transactions similarly omitted as possible distortions were large purchases of **Ford** by the company's Employees' Stock Program.

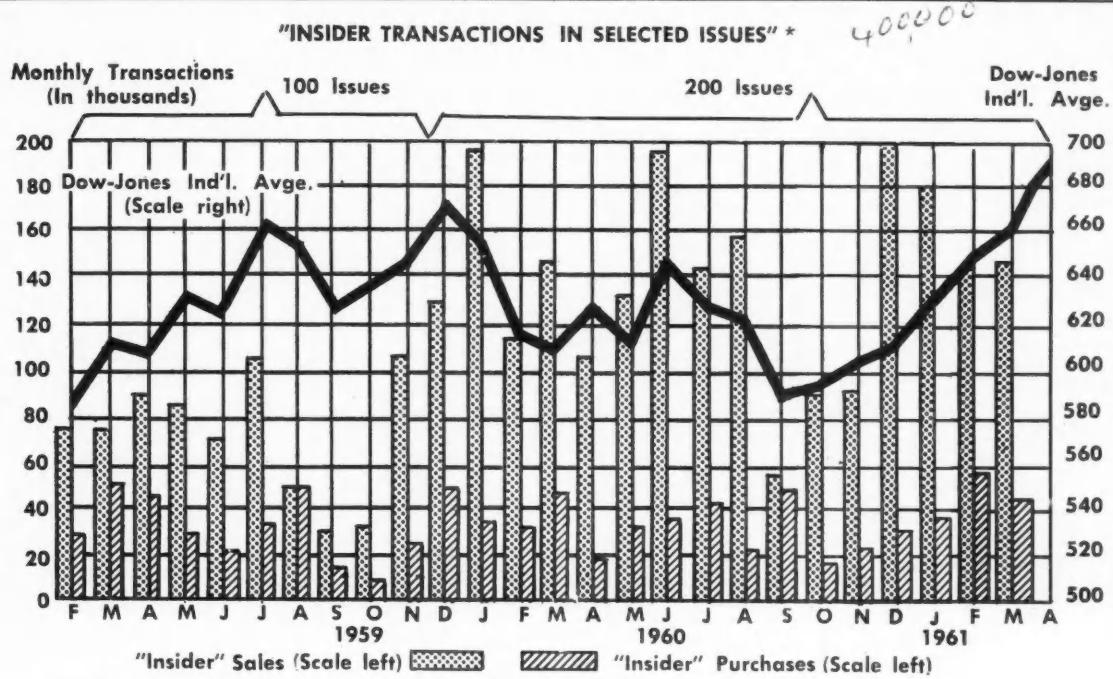
### Option Purchases Substantial

Although straight purchases of stocks by insiders did not exceed a third of sales, much larger acquisitions were accomplished by the exercise of options. In most cases these options were issued some years back and allowed the purchase of stock far below current market prices. For example, 8 officers of Merck purchased, during the first quarter, 7,723 shares at an average price of 26. During the same period the market range was 90-77; each share purchased under option therefore gave an immediate capital gain of $57. So far, none of these have been realized by sale. Like other companies Merck also offers its principal executives incentive awards in stock, but these are issued in terms of current market value and are payable only after death or retirement.

The officers of **American Machine & Foundry** also made heavy option purchases during the quarter: President Carter Burgess, 2,800 shares at 16 when the market price was 91; Vice President Frank Downey 5,136 shares at 13½ with the market at 77; Vice President Rodney Gott, 5,824 shares at 14

**FIRST QUARTER INSIDER TRANSACTIONS**
**200 Industrial Companies**

| 1961 | Purchases | Sales | Dow-Jones Industrials Mid-Month |
|---|---|---|---|
| March | 44,790 | 146,110 | 661 |
| February | 57,248 | 144,830 | 649 |
| January | 52,230 | 181,830 | 634 |




**Stock transactions by Officers, Directors and Principal Stockholders in Largest Industrial Companies. (100 companies included from November, 1958 through November, 1959 and 200 thereafter.) Certain large transactions which would have distorted comparability are omitted from these compilations.*

contrasting with market at 88¼ on the same day; and Vice Chairman Walter B. Smith, 7,946 at 14 when the market was 74¾. None of these shares were immediately sold, although Chairman Morehead Patterson reduced his large holdings (142,000) by 4,000 shares during March.

Still another company which showed a heavy exercise of options during the recent quarter was **National Dairy Products,** which had 8,980 shares picked up at an average cost of about 35. The market price ranged from 47 to 62 during the same period. All of these options, which were valid either for ten years or to retirement, were for purchases at market value on the day issued.

Stock options are, of course, a debatable subject. They are taxed only when the stock purchased is subsequently sold, and then at the capital gains rate (maximum 25%) rather than the normal income levy. Senator Gore of Tennessee recently proposed that options be taxed at the straight income rate, and it is possible that this method of concealed compensation may be abridged in the course of the forthcoming tax "reforms".

**HEAVY INSIDER SALES**
**First Quarter, 1961**

| | Shares |
|---|---|
| American Motors | 9,500 |
| American Viscose | 14,800 |
| Brunswick Corp. | 58,770 |
| Burlington Industries | 62,250 |
| Celanese | 4,400 |
| Eaton Mfg. | 5,200 |
| Fibreboard | 3,950 |
| General Dynamics | 42,740 |
| Goodrich | 3,600 |
| International Paper | 7,000 |
| Kerr McGee Oil | 9,110 |
| Minnesota Mining | 43,000 |
| Monsanto Chemical | 9,220 |
| National Cash Register | 19,200 |
| Philip Morris | 3,800 |
| Republic Steel | 9,800 |
| Stauffer Chemical | 5,110 |
| Union Oil of California | 17,850 |

**HEAVY INSIDER PURCHASES**

| | |
|---|---|
| International Minerals | 10,150 |

**Option purchases have been excluded from the tabulation of insider transactions in these articles, on the basis that they reflect past rather than future conditions and may also be somewhat controlled by the time limit. It is important to remember, however, that probably twice as much stock is acquired by insiders by the exercise of options and bonus schemes than purchases in the open market.**

### "Swap Funds" Popular With Insiders

Most corporate executives who have held their stock for any extended period, as well as those who have enjoyed the remunerative options just described, are naturally in possession of very large unrealized profits and find the capital gains tax a serious obstacle to any program for sale and diversification. Consequently, the new device of the "swap funds" is really tailor-made for the fortunate members of this executive group. These funds are mutual investing companies, of which the **Centennial Fund** of Denver was the pioneer, which invite payment

*(Please turn to page 334)*

# Inside Washington

BY "VERITAS"

**FOREIGN** policy and its execution is the weakest link in our chain mail as we try to battle international communism on a multitude of fronts. The criticism coming from both Republican and Democratic sources, consequently, represents bi-partisan thinking. Ranking Republicans are ready to blast our foreign policies under the Eisenhower Administration, while their Democratic counterparts, smarting under the Cuban fiasco, are becoming intolerant over the foreign policies of President Kennedy. The billions upon billions wasted in foreign military and economic aid has left a bad taste in their mouths in the light of the bungling, chicanery and inefficiency over a long period of years going back to the Roosevelt Administration. The prospects now are that this disillusionment will bear fruit in a more realistic approach to foreign aid expenditures.

**WASHINGTON SEES:**

The outcome of the talks between President Kennedy, President De Gaulle and Premier Khrushchev will be a significant measure of their appraisal of the strength and weakness of the new administration.

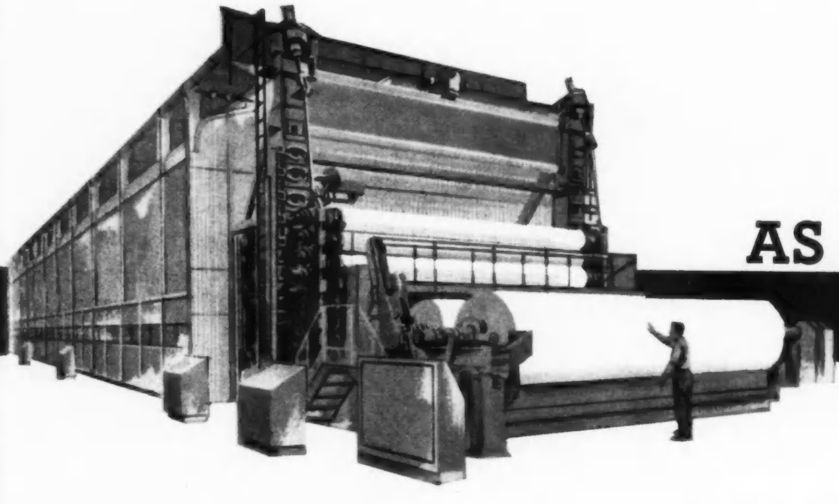
To be expected are optimistic Kennedy-De Gaulle and Kennedy-Khrushchev communiques that will tell all too little of what occurred during the back-stage, hush-hush talks. But regardless of what is said, the disillusioned sophisticates will get a "feel" of the situation, although it will take some weeks before what took place seeps out.

If the President actually persuades De Gaulle to give more support to the North Atlantic Treaty Organization (NATO), gets his consent to allied control over nuclear weapons, as well as nuclear armaments for East Germany, he will have accomplished a portion of his mission to Europe, and achieved a real success in "personal" diplomacy.

In the event that Khrushchev, the seasoned and tough exponent of international communism, outmaneuvers his less hardened opponent, then any entente with De Gaulle will be of uncertain value. In short, Mr. Kennedy will have to win "across the board", or we will have to settle down to an interminable cold war.

**TOUGHER** Anti-Trust legislation is in the making — may be introduced before end of present Congressional Session, but action this year is not possible — thank God. (It is going too far afield as it is.) Extensive Committee hearings will be necessary. In the meanwhile, indications of self-policng by one or two of the larger private firms doing business with the government has somewhat lessened Congressional ire — and may (if it really works) serve to produce a "wait-and-see" attitude that could leave the present statutes inact, except for more severe criminal penalties for price rigging. Prospects for an early Anti-Trust and Monopoly Sub-committee report are remote, but occasional barbed comment by Sen. Estes Kefauver (D., Tenn.), Chairman of the probing group, can be considered as being purely political. He doesn't carry much weight with his Upper colleagues, but the Administration seems to be backing him up.

**PUBLIC** support for space navigation and other space projects, now surging to a new high since the successful flight of Commander Shepard, has Congress in a frame of mind to (1) appropriate almost unlimited additional funds (2) sidestep any critical investigaton of real or fancied lags in our space program and (3) enact stern legislation to bar labor-management delays at missile-space installations. Further, the Pentagon and National Aeronautics and Space Administration, heartened by the success of our first astronaut's flight, are redoubling their efforts — not only to quickly duplicate, even excel the Shepard flight, but to overcome the seeming lag in the development of greater booster thrust.



# AS WE GO TO PRESS

**Liberalized Social Security Measure Will Fail In A Major Respect.** The new bill (now in Senate debate) and designed to (1) pump more dollars into the economy through increased beneficiary payments and (2) reduce unemployment by sending more oldsters into retirement will not nearly solve the unemployment problem. Administration thought that lowering retirement age for male beneficiaries from 65 to 62 would create more employment opportunities for younger generations. Experts in Washington and elsewhere disagree. The reduced (80%) benefit for those who decide to quit work at 62, will induce few to go into retirement, while present $1,200 limitation of retirees' earnings — part, or full time — is another stumbling block to any rush for the "fireside and slipper brigade." Ergo, retirees under the new plan will not be of sufficient numbers to materially affect the overall employment picture.

In the meanwhile, it has been learned that oldsters (65 and over) now drawing Social Security retirement benefits, are "moonlighting" to an extent that contributes to the unemployment volume. Unable to live on SS payments, many of them are actively in the labor market — primarily as service employees — underbidding the youngsters and keeping their earnings down to $1,200 a year, or less. A confidential survey in just one large city reveals that the "old-timers" — working on reduced schedules to stay within the $1,200 annual limit — have displaced around 15% of regularly employed younger people who, under present statutes, are entitled to unemployment compensation.

**President's Brother Possibly Hampers New Frontiers Program.** The Attorney General (younger brother of the Chief Executive) has unwittingly put up road blocks to some of his older brother's liberal program — aid to education, medical care for the aged through the Social Security System, etc. This is reasoning of smart Capitol Hill observers who declare that portions of the program cannot be passed without "unanimous" southern support. And this support has been decidedly weakened, although not entirely liquidated, by the Attorney General's tough May 6 speech at Athens, Ga., warning that his office will crack down on the southern states in their continued racial bias in matters of voting, school integration, desegregation of certain public facilities.

The Attorney General's open stand, plus recent racial disturbances — seemingly instigated by two Negro organizations, National Association for the Advancement of Colored People and Congress on Racial Equality — has soured southern Democrats. Definitely, they are in a mood to vote against "any and everything" on the domestic front that has White House blessing. The southern resentment on Capitol Hill is not yet in the open, will not come in the form of declarations of general antagonism to the man in the White House, nevertheless, it exists — will very definitely serve to check the President's domestic legislative programs. In the meantime, the Attorney General is reliably reported to have rejected the idea of appealing to the Negro organizations to "slow" their activities of a nature calculated to

irritate or inflame Dixie solons.

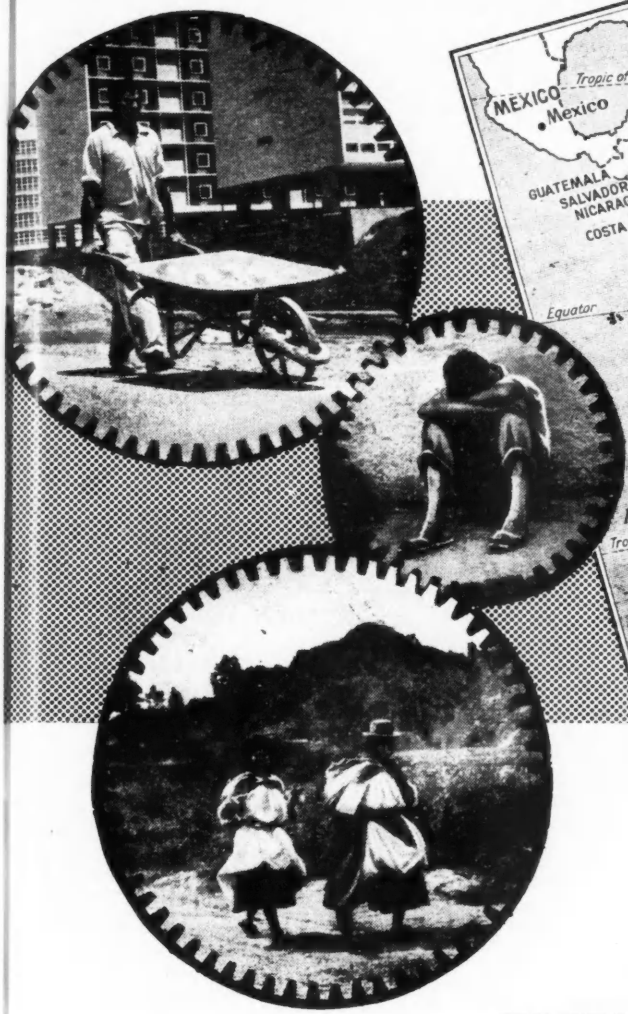
**Portuguese African Angola Next Trouble Spot?** Already, and for several months, in revolt against Portugal, the African natives causing the trouble are getting considerable arms aid as well as "indoctrination" from the USSR. Temporarily halted in their Congo agitation, the Reds have definitely selected Angola to keep the African pot boiling. Not yet published is rather conclusive evidence that Russo arms and materiel sent to the Congo are now being shifted to the Portuguese colony, an easier operation and one more possible of concealment than overt aid, as was tendered the Congolese. Portugal's strong man, Salazar, is well aware of the Red aims, will pour more troops into the area as he sees their need — will not appeal to the United Nations for assistance in a situation he feels himself able to cope with. Our own State Department is thus far "mum" on Angola, but is reliably said to admire the Portuguese Dictator's show of determination.

**Reciprocal Trade Agreements Act Faces Severe Troubles.** Although the present law does not expire until mid-1962, its renewal in present form can be seriously doubted. Various industries which have suffered from low-priced foreign competition are even now pooling resources for an all-out attack. Better organized than on previous occasions of renewal or extension (last was two years ago), their efforts will be more closely co-ordinated under a single directing head, or perhaps a closely-knit, small committee to do thinking and planning. Heretofore, reciprocal trade has had the almost unanimous support of organized labor, a picture now about completely reversed. Opponents of Reciprocal Trade would, of a certainty, prefer that the Act die with present expiration. They know, however, this will not come about, so will work for a more flexible measure which would strip the Executive Branch of its quota and tariff fixing powers, returning them to Congress; doubtless with broad and quickly operable veto powers over any action by the Administration. The protectionists have what they believe "irrefutable" proof that the Act, especially as now administered, has been a major contributant to (1) widespread unemployment and (2) our unfavorable (but now improving) balance of payments position.

**Automation May Get Clean Bill Of Health.** Despite organized labor's complaints, as well as reports of government agencies, that the machine-electronic age is adding to the nation's unemployment burden, there are reasonable prospects that a House Education Subcommittee recently investigating automation's impact on the labor force, will not entirely blame automation for current high unemployment. Irrefutable statistics in the Subcommittee's hands indicate that automation has created — not destroyed-employment opportunities in the building and servicing of automatic devices and automatic systems.

Admittedly, there have been displacements at service and retail levels because of automation. The Subcommittee is aware of these conditions — will recomend further study, reduction of the current 40-hour work week plus, and here we go for another Federal aid project, Federally-financed training and replacement for those who lose employment because of increasingly effective mechanical handling of heretofore manual (and mental) operations. No legislation is possible in the current Congressional Session, but it will be ready next January.

**Russia Curbing Economic Aid To Castro?** Authoritative Washington sources believe this to be the case, pointing to Castro's recent blackmail deal of "prisoners for tractors." Although the bearded dictator of the island "republic" is regarded as a psychopath, it is not believed that he would resort to such a move in defiance of international morality unless he be in desperate straits for equipment not available from the Russians. In turn, some responsible sources believe that Mr. Khrushchev is beginning to have doubts as to the value of Mr. Castro to the Red cause in this hemisphere, would prefer displacement of Mr. Castro by someone else in his coterie, of a more level head, one who could rebuild the Cuban economy and at the same time retain close military ties with the Kremlin, presently having difficulty in meeting its foreign economic commitments — to say nothing of growing internal weaknesses in Red China; weaknesses which could impel Mao Tse-Tung to embark on a "shooting war" to divert attention of his own restive 650 million subjects from the grinding oppression.




## *A First-Hand Report . . .*

# Rationalizing Illusions and Realities about SOUTH AMERICA TODAY

By EUGENE VAN CLEEF*

- **Evaluating the social — economic — and financial pluses and minuses fundamental to the governments and peoples of the continent south of us**
- **The natural — geographical — and psychological advantages and disadvantages for industrial development and trade expansion**
- **What can be accomplished under resourceful and cooperative effort in the essential areas of education — local and foreign investment — the right kind of immigration**
- **What the U.S. must consider, both politically and economically, in channeling our aid program to the various South American countries**

* Dr. Eugene Van Cleef has just returned from an extended tour of South America, and we are fortunate indeed to have the benefit of his research and observations.

**IN these critical times, when Communism threatens in the Western Hemisphere, and the nations of South America steer economic courses with considerable uncertainty, the United States investor and commodity trader needs to take a close look at the fundamentals upon which current happenings are based.**

The review which follows is an attempt to point up the facts associated with the struggle for existence within the boundaries of our southern continental neighbors, to warn of the pitfalls ahead, and to suggest avenues of procedure for Uncle Sam in dispensing foreign aid which might yield better results than have his efforts in other undeveloped lands.

***Population***—South America has an area (6,800,000 square miles) twice that of the main body of the United States, and a population (137,000,000)

about four-fifths as large, facts which might suggest that our southern neighbor some day should support at least twice the present number of people and still have surplus commodities for export. Of course, the situation is not as simple as this. In fact this optimistic comparison is a faulty basis for judging the future economy of South America.

**Dependence of South American Countries On Single Commodities**

| Country | Commodity | % of Total Export Earnings* |
|---|---|---|
| ARGENTINA | Meat | 26% |
| BOLIVIA | Tin | 62% |
| BRAZIL | Coffee | 58% |
| CHILE | Copper | 66% |
| COLOMBIA | Coffee | 77% |
| EQUADOR | Bananas | 57% |
| PARAGUAY | Timber | 24% |
| URUGUAY | Wool | 54% |
| VENEZUELA | Petroleum | 92% |

*—1957-1959 average.

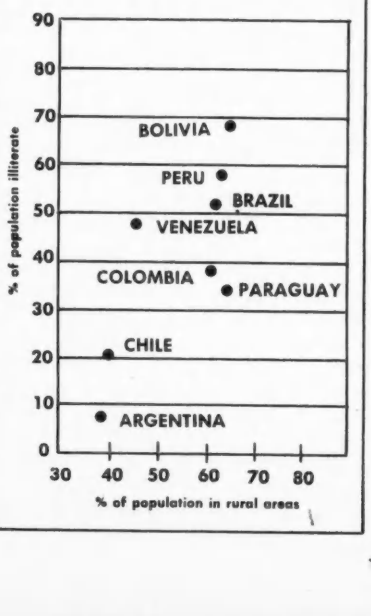
***The economic welfare*** of most of the nations of South America in terms of their trade relations with the outside world focuses upon relatively few commodities. Petroleum, copper, manganese, wheat, coffee, sugar, cacao, nuts, beef and wool are among the better known. But a long list of items could be added such as hardwoods, tin, corn, flax, rice, tobacco, manioc, fruits of many kinds, hides and skins, nitrates, iron ore, bauxite, gold and silver. The production, however, of many of these is small, often much too small to allow of surpluses. Prospects for a notable increase in production are not bright, for a number of reasons.

The ***terrain of the continent*** with its formidable cordilleran highlands in the west, the Brazilian and Guiana Highlands in the east, and vast areas of intervening rough and poorly drained level lands, are serious obstacles to the region's agricultural potential. The amount of arable land, exclusive of pasture land, is estimated by some sources as ranging from only one per cent in several countries to a maximum of 12 per cent in Uruguay. And yet roughly 60 per cent of the population is engaged in agriculture as compared with 12 per cent in the United States. The percentage in some countries is much lower than 60%, but in others it is higher.

***Soils,*** except in portions of the Pampas and the Gran Chaco of Argentina, the Mato Grosso of Brazil and a few other scattered areas are not exceptional. And even in some of these areas irrigation is necessary owing to their semi-arid climates. Considerable amounts of fertilizer and the employment of the best scientific farm methods will be necessary in many localities to bring about substantial crop yields.

***Most areas are not readily accessible.*** Poor means of communication with the markets in some instances are discouraging to those who might otherwise produce larger crops or extract more minerals from the earth. **No doubt, the lack of good transportation facilities can be alleviated, but the cost will be so great that an improvement can not be anticipated for many years.**

**Illiteracy In South America And % of Population in Rural Areas**




**To be sure the airplane and motor vehicle have simplified the problem. The airplane, however, can not be counted upon for some time to carry heavy, bulky goods. The cost of road construction is so great that more capital will be needed for this purpose than the local population can supply. Loans from abroad will be difficult to secure until such time as the credit standing of the nations is stabilized.**

***The People*** — In assessing both the present and future economy of any region, a factor of greater significance than all the physical circumstances even when highly favorable, is the quality of the inhabitants. The late Isaiah Bowman, formerly Director of the American Geographical Society, once rightly said, *"a nation consists not just of people and land, but of people with the intelligence to use effectively the land they occupy."*

**The wealth of a nation is not to be measured in terms of its natural resources alone, but rather in the capacity of its people to produce. Nor is a market to be judged merely by numbers of people but rather by their purchasing power.**

**A recent report of W. R. Grace & Co. points out that "40 per cent of the Latin Americans are children under the age of 15" and that "the median age of the people in South America is only 21.5 years." This comment is followed with the statement "they lack the capital, technical equipment and resources necessary to conquer nature and to colonize and develop the trans-Andean valleys and plains." The report could well have added that unless the attitudes of some of the governments and leaders in business change, the economic outlook for the continent as a whole will continue dim.**

***Illiteracy***—If progress is to be made, the literacy of the peoples must be improved notably, and soon. Illiteracy of the adult population is estimated as ranging from 35% to 45%. The Chase Manhattan Bank which has done much research in the Latin-American realm states *"About 35% of Latin-America's population can neither read nor write; more than half the population 15 years old have less than four year's schooling. Almost 20,000,000 children of school age have never attended school."* But the bank seems over-optimistic when it concludes *"Latin-America has passed the half-way mark in wiping out illiteracy . . ."* and that *"this problem will be solved for practical purposes within the next ten to fifteen years."*

These comments apply equally well, of course, to South America.

## ECONOMIC INDICATORS FOR SOUTH AMERICA

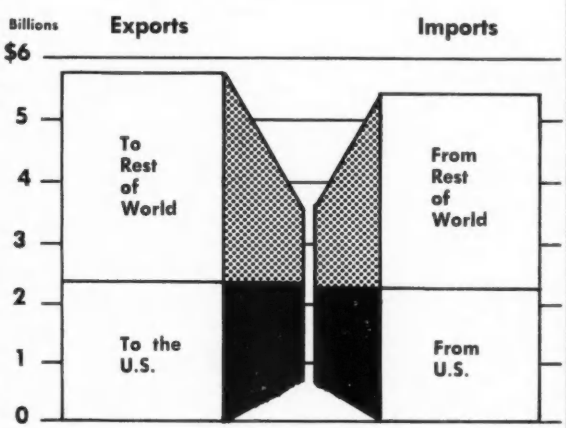
| | Gold & Foreign Exchange | | | Rate of Exchange | | Rate of Inflation | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | % Change in Cost-of-living index | | % Change in the money supply | |
| | Mo. 1960 1961 | Amount ($ millions) | % Change From Last Year | Rate of Exchange end Jan. | % Change Over 3 Months | From Year Ago | Last 3[1] Months (Annual Rate) | From Year Ago | Last 3[1] Months (Annual Rate) |
| ARGENTINA | Nov. | 647 | + 104 | 82.73 | 0 | + 12 | + 25 | + 25 | — 4 Nov. |
| BOLIVIA | Dec. | 7.4 | — 41 | 11,885 | 0 | + 11 | + 15 | + 9 | + 91 |
| BRAZIL | Nov. | 418 | — 10 | 230.10[2] | +20 | + 33 | + 47 Nov. | + 37 | + 70 Nov. |
| CHILE | Jan. | 93.5 | — 28 | 1.053 | 0 | + 6 | + 3 Jan. | + 44 | + 71 |
| COLOMBIA | Dec. | 153 | — 27 | 7.31[2] | + 3 | + 10 | + 32 | + 6 | + 14 Nov. |
| PARAGUAY | Nov. | .94 | — 72 | 126.00 | 0 | + 13 | + 12 Nov. | + 1 | + 11 Nov. |
| PERU | Jan. | 66.1 | + 17 | 26.81 | 0 | + 2 | — 5 | + 15 | — 14 Oct. |
| URUGUAY | Nov. | 223 | + 110 | 11.03 | 0 | + 36 | + 5 Nov. | + 37 | + 21 Nov. |
| VENEZUELA | Dec. | 558 | — 20 | 3.35 | 0 | + 6 | — 3 Aug. | — 6 | + 90 |

1—At annual rates, terminal month is Dec. unless otherwise indicated.
2—Free Rate.
3—Essential Import Rate.

If the literacy problem is to be solved so soon, the nations will have to show much greater efficiency than we in the United States experience in this field, for, in spite of the availability each year of slightly over 52,000 new teachers for our elementary schools there remains a net shortage of trained teachers totaling about 80,000.

***Population Growth***—Another factor complicating South America's illiteracy status and for that matter, its entire economic atmosphere, is its rate of population growth. The United Nations estimates the annual rate of increase in population to be 2.3 percent, the world's fastest. It calculates, also, that by 1980 the population total may equal one-half that of Europe exclusive of the Soviet Union. The figure for 1975 is slightly over 204,000,000, almost equal to the estimate of 217,000,000 for the United States. The Chase Manhattan Bank sets the annual rate of increase for South America at 3,000,000. Whichever figure is accepted, the anticipated growth is staggering.

**SOUTH AMERICA'S WORLD TRADE IN 1958 ***




**Trade of the U.S. with America**
**11% of our Exports went to South America**
**16% of our Imports came from South America**

*** Exclusive of the Guianas.**

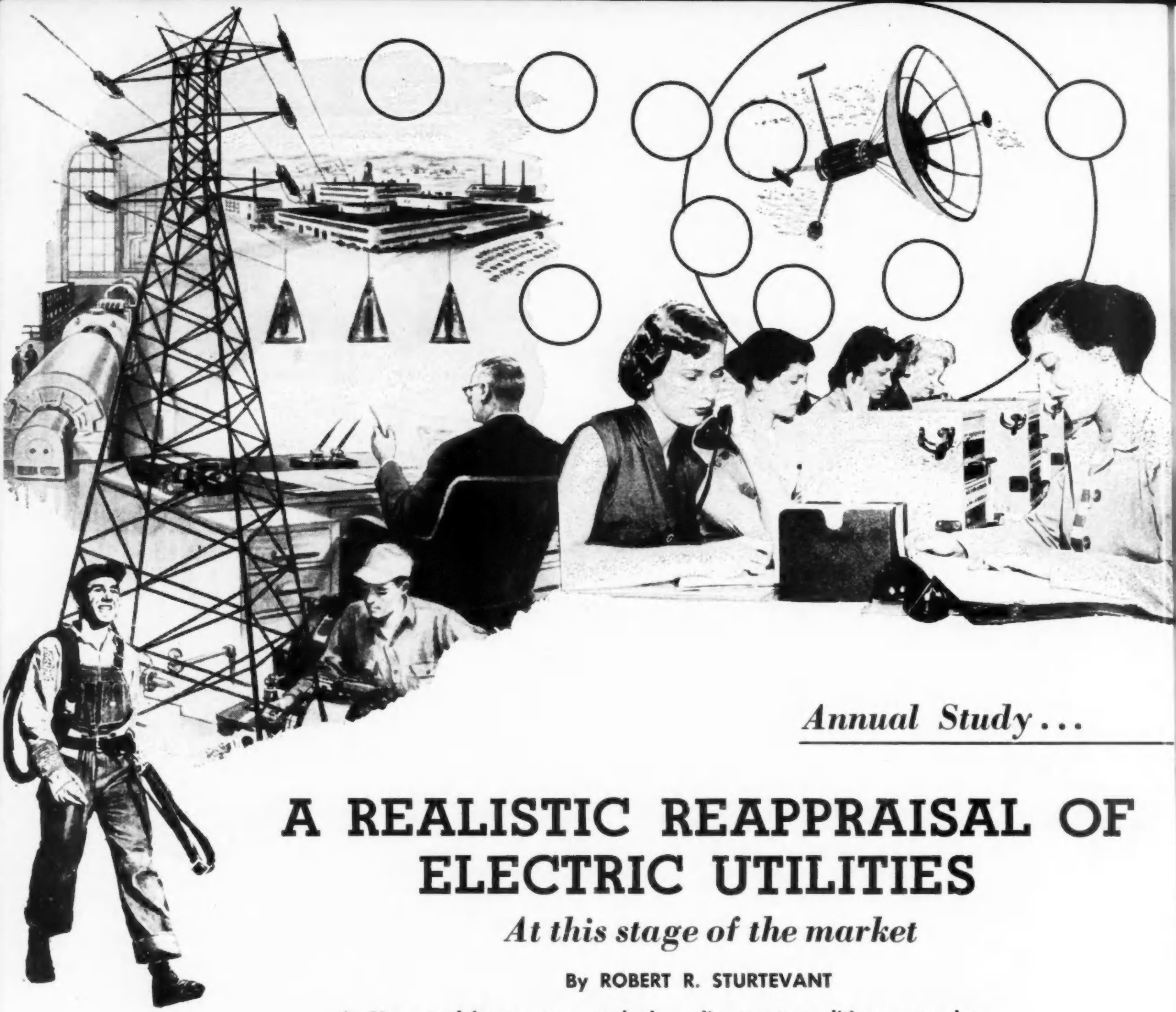
Obviously if South America is to save itself from further extreme poverty it must do something about the ratio between births and deaths, that is, it must control its net population growth. Regretfully this is not likely to come about through the easiest direct medium, because of the influence of the dominant church whose following includes about 95 percent of the population. There are those who believe industrialization of the peoples, which supposedly raises living standards, would ultimately serve as a brake. This is doubtful. The rate of growth is so rapid compared with the likely rate of growth of industry, that the situation under the most favorable industrialization action may easily grow worse.

### The Seeds of Revolt

So many persons are poverty stricken, but also wiser in the ways of the world than their predecessors, that conceivably they may insist almost any day upon a share in the resources of their prosperous fellowmen. They have learned there is such a thing as the possibility of three meals a day and they are determined to have them. **Any sharing of the current resources of this wealth among the rest of the people can lead only to a general lowering in the economic status of all the people.**

**There is a calculation which suggests that if a nation's population increases only one percent annually, it must invest an additional 2 to 5 percent of its income in productive activity merely to *maintain* its standard of living.** Applied to South America the outlook is drab indeed. But suppose we assume that population expansion is controlled and standards of living are lifted, then what?

**The *climates* of South America are unfavorable to the region's maximum development.** In the greater part of the readily accessible habitable areas, temperatures are high and generally associated either with high humidity or semi-arid to arid conditions. These combinatons of atmospheric phenomena are not conducive to sustained expenditure of energy, either physical *(Please turn to page 339)*



*Annual Study . . .*

# A REALISTIC REAPPRAISAL OF ELECTRIC UTILITIES

## *At this stage of the market*

By ROBERT R. STURTEVANT

- **Near and longer term outlook — divergent conditions, area by area . . . changes in rate structure — and likely legislation**
- **Which companies are geared to make the greatest gains — which are likely to lag — earnings-dividend potentials looking to 1962**

THE electric utility stocks have been one of the favorite groups in the current bull market despite the fact that they do not benefit by inflation — which was supposed to be the mainspring of the current advance. In the past year the Moody average of 30 electric utility stocks has advanced from 67 to 88, a gain of 31%. Dividend rates on these stocks now average $2.79 compared to $2.67 a year ago, but the average yield is now 3.18% compared to 3.96%. **A compilation of 135 electric utility stocks shows that these stocks are selling to average 21.3 times earnings compared with 17.3 a year earlier; the present average yield is only 3.5% compared with 4.2% a year ago. Earnings are currently showing an average gain of 6% compared with 7% last year; the five-year average rate of gain also approximates 6%.**

It is the electric "growth utilities" which have led the advance, with gains compared with last year's low ranging from 34% to 111% (see table 3). While earnings have increased during the past year the major price factor has been the increase in the price-earnings multiples, which now range as high as 42 — about double the top multiple of several years ago. Multiples have not yet reached the fantastic ratios of utility holding company stocks in the 1929 bull market, but they now about equal the ratios for old-line stocks like Con Edison in 1929.

### Appraising Values

A major problem now is to attempt to forecast the trend of price-earnings ratios — for the ratio has become more important than the earnings figure itself. Thus the analyst who tries to study changes in earnings is somewhat frustrated by the need to study market psychology. A leading analyst over a year ago declared that growth stocks were already selling too high in relation to earnings yet most of these stocks are now at far higher levels.

## Table 1 — Data and Comment on Important Electric Utilities

| | Earnings Per Share 1958 | 1959 | 1960 | 1st Quarter 1960 | 1st Quarter 1961 | Indicated Current Dividend | Recent Price | Div. Yield | Price Earnings Ratio * | Price Range 1960-61 |
|---|---|---|---|---|---|---|---|---|---|---|
| Allegheny Power System | $2.26 | $2.36 | $2.38 | $ .68 | $ .64 | $1.70 | 47 | 3.6% | 19.7 | 48½-33¾ |
| American Electric Power Co. | 2.30 | 2.30 | 2.46 | .70 | .66 | 1.88[3] | 66 | 2.8 | 27.6 | 69⅞-46⅛ |
| Baltimore Gas & Electric | 1.19 | 1.41 | 1.48 | .52 | .51 | 1.00 | 31 | 3.2 | 20.9 | 31¾-24⅛ |
| Central & South West Corp. | 1.27 | 1.36 | 1.45 | .27 | .27 | 1.02 | 45 | 2.2 | 31.0 | 47 -29⅛ |
| Cincinnati Gas & Electric | 1.85 | 1.97 | 2.23 | 1.04 | 1.03 | 1.50 | 43 | 3.4 | 19.2 | 45¼-30⅞ |
| Cleveland Electric Illum. | 2.60 | 2.95 | 2.97 | .92 | .84 | 1.80 | 57 | 3.1 | 19.1 | 59¾-47⅝ |
| Commonwealth Edison | 3.58 | 3.67 | 3.86 | 1.10 | 1.14 | 2.00 | 78 | 2.5 | 20.2 | 80⅜-56¼ |
| Consolidated Edison | 3.74 | 3.92 | 3.88 | 1.39 | 1.35 | 3.00 | 83 | 3.6 | 21.3 | 86½-59 |
| Consumers Power Co. | 3.15 | 3.71 | 3.45 | 3.61[1] | 3.42[1] | 2.60[1] | 69[4] | 3.7 | 20.0 | 72¼-53½ |
| Dayton Power & Light | 3.21 | 3.22 | 3.34 | 1.29 | 1.43 | 2.40 | 69 | 3.4 | 20.6 | 75½-45¾ |
| Detroit Edison | 2.17 | 2.34 | 2.68 | .81 | .79 | 2.20 | 54 | 4.0 | 20.1 | 56 -40⅛ |
| Duquesne Light Co. | 1.40 | 1.44 | 1.52 | .43 | .42 | 1.18 | 28 | 4.2 | 18.4 | 29⅛-21⅝ |
| Florida Power & Light | 1.75 | 1.93 | 2.11 | 2.01[1] | 2.09[1] | 1.00 | 70 | 1.4 | 33.1 | 70⅜-50¾ |
| Hartford Electric Light Co. | 3.54 | 3.65 | 3.67 | 1.17 | 1.25 | 3.00 | 68 | 4.4 | 18.5 | 70½-61 |
| Middle South Utilities | 1.31 | 1.40 | 1.50 | .32 | .32 | 1.06 | 36 | 2.9 | 24.0 | 37⅛-25¼ |
| New England Electric System | 1.26 | 1.31 | 1.35 | .44 | .41 | 1.08 | 24 | 4.5 | 17.9 | 24⅝-19⅞ |
| Niagara Mohawk Power | 2.12 | 2.07 | 2.24 | .85 | .86 | 1.80 | 44 | 4.0 | 19.6 | 45⅞-33⅞ |
| Northern States Power | 1.30 | 1.41 | 1.49 | .47 | .48 | 1.18 | 32 | 3.6 | 21.4 | 33 -22⅝ |
| Ohio Edison | 1.80 | 1.98 | 2.14 | 2.04[1] | 2.11[1] | 1.48 | 39 | 3.7 | 18.2 | 39¾-29½ |
| Pacific Gas & Electric | 3.74 | 3.70 | 4.14 | 3.81[1] | 4.30[1] | 2.80 | 81 | 3.8 | 19.5 | 85¼-60 |
| Philadelphia Electric | 1.38 | 1.45 | 1.42 | .48 | .52 | 1.20 | 32 | 3.7 | 22.5 | 33 -23¾ |
| Public Service Elec. & Gas | 2.26[2] | 2.42[2] | 2.76[2] | 1.07[2] | 1.29[2] | 2.00 | 54 | 3.7 | 19.5 | 56 -36⅛ |
| Puget Sound Pow. & Lt. | 1.97 | 2.11 | 2.12 | .58 | .55 | 1.56 | 40 | 3.9 | 23.5 | 42 -29½ |
| Southern California Edison | 3.78 | 3.82 | 4.59 | 1.17 | 1.18 | 2.60[3] | 72 | 3.6 | 15.6 | 79¼-56⅛ |
| Southern Co. | 1.81 | 1.93 | 2.06 | 1.97[1] | 2.00[1] | 1.50 | 58 | 2.5 | 28.1 | 59¼-39⅛ |
| Union Electric Co. | 1.77 | 1.84 | 2.17 | .56 | .51 | 1.80 | 44 | 4.0 | 20.2 | 44⅞-32 |
| Utah Power & Light | 1.75 | 1.85 | 1.86 | .49 | .46 | 1.32 | 34 | 3.9 | 18.2 | 38¾-30½ |
| Virginia Electric & Power | 1.66 | 1.70 | 1.86 | .49 | .55 | 1.30 | 58 | 2.2 | 31.1 | 58¼-34⅜ |
| Wisconsin Electric Power | 2.12 | 2.87 | 2.71 | .93 | .83 | 1.80 | 45 | 4.0 | 16.6 | 46¾-36⅜ |

*—Based on 1960 earnings.

1—12 months ended March 31.

2—Based by company on average number of shares on which dividend were paid.

3—Plus stock

4—3 for 1 stock split, effective in June 1961.

**Allegheny Power** (formerly West Penn Electric) is a holding company system in Pennsylvania and neighboring states. Increases in share earnings have been moderate but consistant in recent years, and dividend increases have occurred fairly frequently. **B-3**

**American Electric Power** operating in seven states, is the largest electric utility holding company system. It also leads the investor-owned utility industry in the size of generating units, engineering research, etc. Generally considered a growth utility. **A-3**

**Baltimore Gas & Electric** is a very conservative, old-line utility with a good earnings record. Regulation in Maryland is considered satisfactory. **A-1**

**Central and South West**, a holding company system operating in Texas and adjacent states. Has an above-average growth record and enjoys excellent management. **A-1**

**Cincinnati Gas & Electric** is an old-line company, operating in a relatively stable industrial area. Share earnings have been somewhat irregular, but gained 14% last year on rate increases. Company may adopt "flow through" of tax savings. **A-3**

**Cleveland Electric Illuminating** has a heavy industrial load, and gains in share earnings have been below average in recent years. **A-3**

**Commonwealth Edison**, one of the "big city" utilities, also serving substantial suburban areas which are growing rapidly. Excellent earnings record. Pays $2 cash plus balance of earnings in stock dividends. **A-1**

**Consolidated Edison** has asked for a substantial rate increase and a decision by the PSC should be forthcoming soon. The stock has been reflecting a favorable result. **A-3**

**Consumers Power**, one of the two large Michigan utilities, with a mediocre record of share earnings 7 lines far unable to obtain adequate rate relief from the state commission. **B-3**

**Dayton Power & Light's** share earnings record has been somewhat disappointing in recent years, as return on investment dropped from 7.6% in 1956 to 6.2% in 1960. **B-3**

**Detroit Edison's** share earnings have been irregular in recent years due largely to the cyclical character of the automobile business. However, recent earnings showed a 9% gain. **A-3**

**Duquesne Light's** record has been slightly below average although share earnings were buttressed by inclusion of tax savings. With improving steel operations earnings may gain. **A-3**

**Florida Power & Light**—Formerly the premier growth utility, the company is now making a less favorable showing due to the rate cut (52c earned in first quarter vs. 56c a year ago). **A-1**

**Hartford Electric Light** has had a rather uninteresting record of earnings, but offers an attractive yield. **B-3**

**Middle South Utilities** has an excellent record of share earnings, with average gains of 9% per annum in recent years, and sells at a below-average P-E ratio for a growth utility. **A-1**

**New England Electric System** earnings have shown only small gains over the past five years. Yield of 4.5% is well above average, however. **B-3**

**Niagara Mohawk Power** is now making an improved showing, following some years of poor earnings resulting from loss of the Schoellkopf hydro plant. Another rate increase appears to be in the offing. **B-3**

**Norrhern Sta.es Power** is considered a "defensive" type issue since it serves large farm areas. Earnings for 1961 estimated by company at $1.54 vs. $1.49 last year. **A-3**

**Ohio Edison** may benefit from "flow through" by as much as 50c a share if Ohio court supports commission in its recent ruling. **A-3**

**Pacific Gas & Electric** may soon become the largest electric-gas utility as measured by revenues. Share earnings now benefit by "flow through." Regulation in California is considered as somewhat unfavorable. **A-2**

**Philadelphia Electric**—Sound, conservative utility, but earnings have made somewhat below-average showing. **A-3**

**Public Service Electric & Gas**—Earnings have gained sharply in the past year due to a rate increase, use of "flow through", etc. **A-2**

**Puget Sound Power & Light** has an interesting record of share earnings gains, but outlook for future may be affected by public power issue. **B-1**

**Southern California Edison**—dip has reflected recent unfavorable regulatory developments in California. Price-earnings multiple below average but company might abandon use of accelerated depreciation, with resulting decline in earnings. **A-2**

**Southern Company** has enjoyed dynamic record of increasing share earnings in recent years leading to inclusuion of stock in "growth group." However, generally priced at present. **A-1**

**Union Electric**—Reported substantial gain in earnings last year following average gains of 5% in previous years (including "flow throgh"). Yields 4%. **A-3**

**Utah Power & Light**—Earnings record of recent years somewhat disappointing, though long-term outlook has favorable aspects. **B-3**

**Virginia Electric & Power**—Expected to adopt "flow through" which would raise earnings. Good record and stock rates as growth utility. **A-1**

**Wisconsin Electric Power** Company conservatively operated. Earnings made a rather poor showing last year, but the stock sells at lower than average price-earnings ratio. **A-2**

**RATINGS: A—Best grade.**
**B—Good grade.**

**1—Earnings gain in recent years above industry average.**
**2—Earnings gain in recent years, in line with industry average.**
**3—Earnings gain in recent years, below average.**

## Table 2 — 1960 Key Statistics and Ratios

| | Allegheny Power System | American Electric Power | Baltimore Gas & Electric | Central & South West Corp. | Cincinnati Gas & Electric | Cleveland Electric Illum. | Commonwealth Edison | Consolidated Edison |
|---|---|---|---|---|---|---|---|---|
| **PLANT VALUE (MILLIONS) GROSS** | $693 | $1,739 | $576 | $805 | $456 | $559 | $2,073 | $2,756 |
| Depreciation Reserve | 174 | 393 | 115 | 131 | 106 | 148 | 481 | 511 |
| Net Plant Account | 519 | 1,346 | 461 | 674 | 350 | 411 | 1,592 | 2,245 |
| **CAPITAL RATIOS (%)** | | | | | | | | |
| Funded Debt to Total Capitalization | 53 | 53 | 52 | 51 | 50 | 46 | 52 | 52 |
| Preferred Stock to Total Capitalization | 13 | 8 | 6 | 10 | 12 | 6 | 4 | 10 |
| Common Stock & Surplus to Total Capitalization | 34 | 39 | 42 | 39 | 38 | 48 | 100 | 38 |
| **ANALYSIS OF REVENUES—ELECTRICITY %** | 100 | 100 | 66 | 100 | 57 | 95 | 100 | 80 |
| Gas % | — | — | 32 | — | 43 | — | — | 15 |
| Miscellaneous | — | — | 2 | — | — | 5 | — | 5 |
| **INCOME ACCOUNT (Consolidated)** | | | | | | | | |
| Gross Revenues (Millions) | $158 | $338 | $175 | $173 | $153 | $138 | $469 | $656 |
| Operating Expense (includ. purch. pow. & gas) | 59 | 114 | 91[2] | 57 | 81 | 50 | 167 | 268 |
| Maintenance | 12 | 25 | — | 10 | 7 | 7 | 25 | 62 |
| Depreciation | 18 | 45 | 14 | 20 | 12 | 16 | 52 | 58 |
| Taxes—Federal Income (Includ. Deferred Taxes) | 21 | 46 | 23 | 29 | 19 | 21 | 71 | 39 |
| Net Operating Income (after all taxes) | 34 | 79 | 29 | 44 | 23 | 27 | 98 | 110 |
| Gross Income | 35 | 79 | 30 | 44 | 24 | 27 | 99 | 111 |
| Fixed Charges, etc. [1] | 13 | 21 | 7 | 10 | 4 | 6 | 22 | 37 |
| Net Income | 22 | 54 | 22 | 33 | 19 | 21 | 78 | 72 |
| **EXPENSE RATIOS (%)** | | | | | | | | |
| Ratio Depreciation to Gross Revenues | 11 | 13 | 12 | 11 | 8 | 11 | 11 | 9 |
| Maintenance to Gross Revenues | 7 | 7 | — | 6 | 5 | 5 | 5 | 9 |
| Combined Deprec. & Maintenance to Gross Rev. | 18 | 20 | — | 17 | 13 | 16 | 16 | 18 |
| Operating Ratio (including taxes) | 78 | 76 | 83 | 74 | 84 | 80 | 80 | 83 |
| **EARNING RATIO** | | | | | | | | |
| No. Times Fixed Charges Earned after taxes [1] | 2.5 | 3.8 | 4.0 | 4.3 | 5.1 | 4.5 | 4.4 | 3.0 |
| **ANALYSIS OF ELECTRIC REV. (% of Total)** | | | | | | | | |
| Residential & Rural | 41 | 34 | 36 | 38 | 39 | 36 | 36 | 33 |
| Commercial | 17 | 15 | 30 | 29 | 25 | 58[3] | 30 | 53[3] |
| Industrial | 39 | 40 | 33 | 22 | 26 | — | 27 | — |
| Other | 3 | 11 | 1 | 11 | 10 | 6 | 7 | 14 |
| **COMMON STOCK** | | | | | | | | |
| Dividend Pay-out | 71 | 76 | 67 | 70 | 67 | 61 | 52 | 77 |

1—Includes interest on construction credit. 2—Includes maintenance. 3—Combined commercial and industrial.

In any event the analyst can *compare* the figures for different utilities and attempt to determine which is the most attractive of the lot. One yardstick is to compare price-earnings ratios with rates of growth in share earnings, as indicated in the above table — but these comparisons are not as consistent as they used to be. For example **Florida Power & Light** now sells at a lower multiple than **Florida Power Corp.**, although its increase in share earnings is larger; this is doubtless due to the rate cut and bad first quarter showing. Thus it is necessary to study current trends as well as the past ratio, in comparing growth utilities.

**A utility stock which can't maintain its earlier rate of growth may be even more vulnerable than a growth utility with a high price multiple. ► The utility stock which has no appeal except the current dividend and the resulting yield is "at the bottom of the list" in today's market. ► This stock must compete with bonds and preferred stocks which yield about 4½% to 5%. ► But with a growth stock, yield apparently means very little as compared with potential capital gains. Thus we find yields on electric utility stocks ranging from 1.5% for rapid growth utilities such as *Florida Power & Light* and *Houston Lighting & Power* to 5% for a few small utilities which have little dependable growth.**

### The Key Factor of Regulation

If there is any factor which should be closely watched by holders of electric utility growth stocks, it is regulation.

**As noted above, a rate cut last December proved unsettling for *Florida Power & Light* and this had also happened several years earlier. The *California* utilities declined a few weeks ago (and sell at relatively low multiples despite the fact that California has been a growth state) mainly because of regulatory problems. Among the gas utilities the pipeline stocks have made a poor showing in the past year or so because of the regulatory mess in the Federal Power Commission at Washington.**

### What's Ahead?

What about the current regulatory outlook? There has been no basic change for the country as a whole, but in some areas there has been some tightening of regulation, perhaps as a result of the industry's prosperity marketwise.

**In New York** important decisions for **Consolidated Edison** and **Niagara Mohawk** are currently awaited, which will indicate whether the Public Service Commission's reputation as a rather "tough" body has changed.

**In California** the election of a new Governor resulted in a less favorable regulatory climate. The Commission in that state refuses to allow a much needed fuel adjustment clause for electric utilities and since fuel costs are in a generally rising trend this means that every two or three years each company must seek a fresh increase. Recently the Com-

## of Important Utility Companies

| Consumers Power | Detroit Edison | Middle South Util. | Niagara Mohawk Power | Northern States Power | Ohio Edison | Pacific Gas & Electric | Phila. Electric | Public Service Elec. & Gas | Puget Sound Power & Light | Southern Calif. Edison | Southern Company | Union Electric Co. |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| $1,123 | $1,169 | $906 | $1,265 | $699 | $684 | $2,919 | $1,290 | $1,572 | $228 | $1,484 | $1,613 | $781 |
| 193 | 232 | 179 | 277 | 148 | 131 | 617 | 288 | 311 | 21 | 243 | 305 | 174 |
| 930 | 937 | 727 | 988 | 551 | 553 | 2,302 | 1,002 | 1,261 | 207 | '1,241 | 1,308 | 607 |
| 52 | 53 | 52 | 54 | 49 | 48 | 51 | 52 | 57 | 59 | 52 | 57 | 55 |
| 9 | — | 11 | 15 | 16 | 13 | 16 | 9 | 10 | 5 | 13 | 9 | 10 |
| 39 | 47 | 37 | 31 | 35 | 39 | 33 | 39 | 33 | 36 | 35 | 34 | 35 |
| 63 | 97 | 86 | 76 | 83 | 98 | 65 | 82 | 64 | 100 | 100 | 100 | 95 |
| 35 | — | 9 | 24 | 15 | — | 35 | 15 | 36 | — | — | — | 3 |
| 2 | 3 | 5 | — | 12 | 2 | — | 3 | — | — | — | — | 2 |
| $281 | $279 | $214 | $299 | $183 | $140 | $648 | $273 | $294 | $ 37 | $306 | $319 | $159 |
| 144 | 111 | 87 | 139 | 78 | 44 | 255 | 115 | 173 | 14 | 103 | 123 | 63 |
| 11 | 34[4] | 13 | 22 | 9 | 9 | 21 | 23 | 34 | 2 | 17 | 15 | 12 |
| 27 | 27 | 24 | 27 | 16 | 16 | 59 | 35 | 35 | 3 | 33 | 40 | 18 |
| 34 | 27 | 28 | 15 | 25 | 23 | 81 | 32 | 33 | 1 | 40 | 33 | 15 |
| 49 | 52 | 40 | 54 | 33 | 32 | 127 | 56 | 68 | 12 | 70 | 73 | 35 |
| 50 | 52 | 40 | 54 | 34 | 35 | 128 | 57 | 68 | 12 | 71 | 74 | 36 |
| 13 | 13 | 14 | 18 | 7 | 6 | 34 | 14 | 21 | 5 | 19 | 26 | 8 |
| 37 | 38 | 25 | 35 | 26 | 29 | 92 | 42 | 46 | 7 | 51 | 46 | 27 |
| 10 | 9 | 11 | 9 | 9 | 12 | 9 | 12 | 9 | 8 | 11 | 12 | 11 |
| 4 | 12[4] | 6 | 7 | 5 | 6 | 3 | 8 | 9 | 6 | 5 | 5 | 7 |
| 14 | 21 | 17 | 16 | 14 | 18 | 12 | 20 | 18 | 14 | 16 | 17 | 18 |
| 85 | 81 | 81 | 82 | 77 | 77 | 80 | 78 | 82 | 67 | 77 | 77 | 77 |
| 3.8 | 3.9 | 3.0' | 3.0 | 4.8 | 6.0 | 3.7 | 4.0 | 3.2 | '2.7 | 3.6 | 2.8 | 4.3 |
| 42 | 39 | 38 | 37 | 44 | 40 | 46 | 34 | 35 | 57 | 41 | 35 | 37 |
| 22 | 27 | 25 | 20 | 49[3] | 24 | 47[3] | 57[3] | 31 | 26 | 22 | 27 | 22 |
| 30 | 28 | 25 | 30 | — | 32 | — | — | 31 | 12 | 26 | 29 | 33 |
| 6 | 6 | 12 | 13 | 7 | 4 | 7 | 9 | 3 | 5 | 11 | 9 | 8 |
| 75 | 82 | 70 | 80 | 78 | 79 | 67 | 84 | 72 | 73 | 56 | 72 | 83 |

4—Including other operating expenses.

mission ordered the utilities to use "flow-through" of tax savings resulting from accelerated depreciation so that some of the benefits will be used to offset the need for higher rates.

**Pennsylvania,** which used to have a fairly liberal commission, has tightened up. The commission has been reviewing the earnings showing of all major utilities operating in the state and has ordered several moderate rate cuts. This has not helped to improve the market standing of these issues. Utilities have been asked to use flow through, but not all have complied, and the commission has not made an issue over the matter as is being done in California.

**New England** is noted for its bleak regulatory climate — especially Maine, New Hampshire, and Rhode Island. A member of the Massachusetts Commission recently gave a talk before the New York Society of Security Analysts in which he explained the Commission's policies. This state appears to be more progressive than others in New England.

**In Florida,** with its favorable regulatory climate of recent years, there has been no important change despite the fact that Florida Power & Light was again asked to reduce its earned rate of return to the level ordered in an earlier case (6.98%). After some delay, Tampa Electric was permitted to increase its rates last year.

**Illinois,** another state which has maintained a good regulatory climate in recent years, has thus far continued its former policy under a new state administration and it is to be hoped this will continue. Greater market interest has been indicated in the stocks of Illinois companies in recent years as the result of favorable earnings records.

**Ohio** should (in theory) be one of the most liberal states in the union, since the law states that cost of reproduction should be used as the rate base. The average rate of return is probably higher in the state than in some others, but the fact that regulation is by municipalities in the first instance, and the commission and the courts only on appeal, makes for considerable irregularity. The commission has recently, in the Cincinnati G. & E. case, suggested that "flow through" be used but the company has appealed this to the court. If the court backs the commission, flow-through may become general practice with Ohio utilities. As has occurred in other states where similar orders have been issued, this would automatically increase the earnings of utilties in the state by sizable amounts, but because of the fact that many analysts and investors regard the "flow-through" earnings as synthetic, price-earnings ratios would probably not be favorably affected.

### Renewing Public Power Issue

Apparently the stock market has not, as yet, been unduly disturbed over indications that the Kennedy Administration favors public power as compared with the "partnership policy" (between public and private power) espoused *(Please turn to page 345)*

# 3 STRONG STOCKS OFFERING UNUSUAL INVESTMENT VALUES

By WARD GATES

## ★ *Johns-Manville* ★ *Phelps Dodge* ★ *Youngstown Sheet & Tube*

DESPITE the rocketing performance of the many specialty-type stocks in the market in recent months, good quality investments never really go out of style. They may be ignored for awhile, or they may decline temporarily as economic conditions present a less favorable environment for their business activities, but companies firmly entrenched in their industries with long records of responsible management and sound finances, have always proved to be good long term investments.

This lesson is particularly vital today when the pyrotechnics of the stock market are creating excesses that cautious, seasoned investors must view wih misgivings. And yet the evidence of a rebounding economy plus an unmistakably string stock market makes it impossible for investors with investable funds to remain for too long on the sidelines. There is always the urge to put money to work and although some of it can find havens in the corporate, government and tax-exempt bond market, there is still a need in almost all planned programs for some permanent investment in common stocks.

The only wise course under these circumstances is to limit common stock holdings to companies that provide two essential qualities: 1.) An unmistakable ablity to participate in the growth of the economy, and 2.) A reservoir of financial strength that will enable the investor to live comfortably with the stock if today's excesses should cause a radical shakeout in stock prices.

The three companies reviewed in this story qualify unquestionably on these counts. In addition, the three, as a package, present a unique combination of excellent potential growth, a hedge against the ravages of inflation and a relatively high current

yield without excessive risk.

**Johns-Manville** provides the smallest yield of the three companies, but also gives the most assurance of orderly growth over the years. The company is a major factor in the building industry and is the world's largest manufacturer of asbestos products, accounting for about 33% of free-world production. Its building supply business, however, includes many other materials for turning out a wide variety of products including roofing shingles, insulating products, brake linings, clutch facings, transite pipe and acoustic materials. In addition, through the acquisition of L-O-F Glass Fibers Co., in 1958, Johns-Manville is one of the nation's principal producers of glass fiber products—a field in which there has been enormous growth in a relatively few years.

On a short term basis, Johns-Manville stock reacts to changes in the outlook for new housing, but the upward sweep of the stock in recent years reflects a broader scope of activities and a depth of diversification that insulates the company from the violent fluctuations of the new housing market. Proof of this, perhaps, is the high price of the stock today despite a slowdown in new home building, and despite a poor first quarter earnings report.

The fact is, that Johns-Manville derives only about 15% of its revenues from new home construction. Industrial construction accounts for approximately 35% and the lucrative and steady repair market provides the balance.

Additional stability stems from the company's world-wide operations and from its effective control of its raw materials through extensive ownership of mines and producing properties. The company maintains some forty plants for the production of over 400 products in the U.S., Canada, France, Mexico, Belgium and England. Mining endeavors include the world's largest asbestos mine located in Quebec and another one in Munro, Ontario. In all, the company consumes about 40% of the output of these

## Income Data

| | Net Sales | Income Taxes (Millions) | Net Income | Net Profit Margin | Earnings Per Share | Cash Earns. Per Share | Div. Per Share |
|---|---|---|---|---|---|---|---|
| **JOHNS-MANVILLE** | | | | | | | |
| 1961 (1st Quarter) | $59.9 | $N.A. | $2.1 | 3.0%' | $.25 | $N.A. | $2.00[2] |
| 1960 | 365.1 | 20.8 | 26.5 | 7.2 | 3.12 | 5.10 | 2.00 |
| 1959 | 377.5 | 21.8 | 31.6 | 8.3 | 3.73 | 5.71 | 2.00 |
| 1958 | 331.7 | 16.8 | 23.3 | 7.0 | 2.82 | 4.07 | 2.00 |
| **PHELPS DODGE** | | | | | | | |
| 1961 (1st Quarter) | 72.5 | 4.9 | 8.8[1] | 12.5[1] | .90[1] | N.A. | 3.00[2] |
| 1960 | 286.7 | 21.1 | 37.3[1] | 13.0[1] | 3.68[1] | 4.00[1] | 3.00 |
| 1959 | 285.5 | 20.1 | 34.5[1] | 12.1[1] | 3.41[1] | 4.19[1] | 3.00 |
| 1958 | 269.9 | 22.6 | 36.4 | 13.5 | 3.75[1] | 4.40 | 3.00 |
| **YOUNGSTOWN SHEET & TUBE** | | | | | | | |
| 1961 (1st Quarter) | 116.5 | 2.1 | 2.6 | 2.3 | .77 | N.A. | 5.00 |
| 1960 | 574.2 | 24.2 | 25.7 | 4.4 | 7.38 | 14.82 | 5.00 |
| 1959 | 608.1 | 30.5 | 30.9 | 5.0 | 8.90 | 15.56 | 5.00 |
| 1958 | 499.6 | 20.1 | 21.5 | 4.3 | 6.23 | 14.82 | 5.00 |

N.A.—Not available.

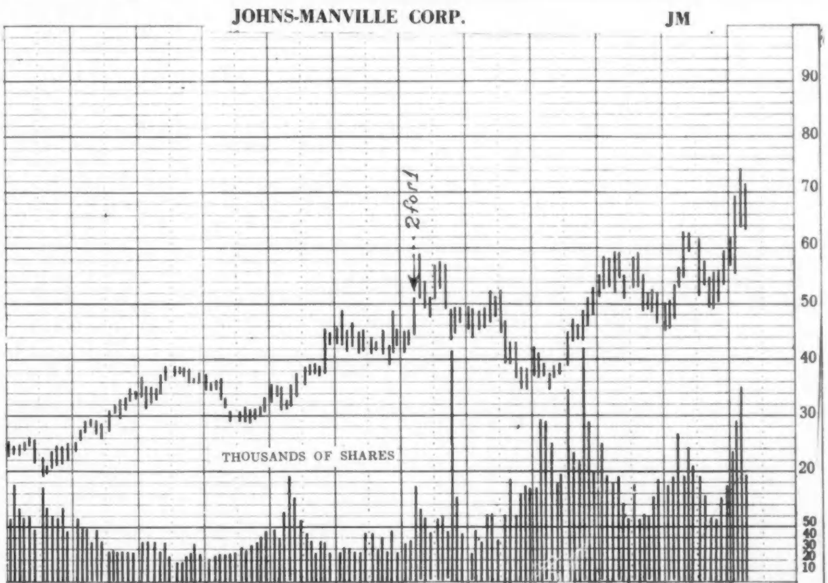
1—Before depletion.

2—Indicated 1961 rate.

## Balance Sheet Items

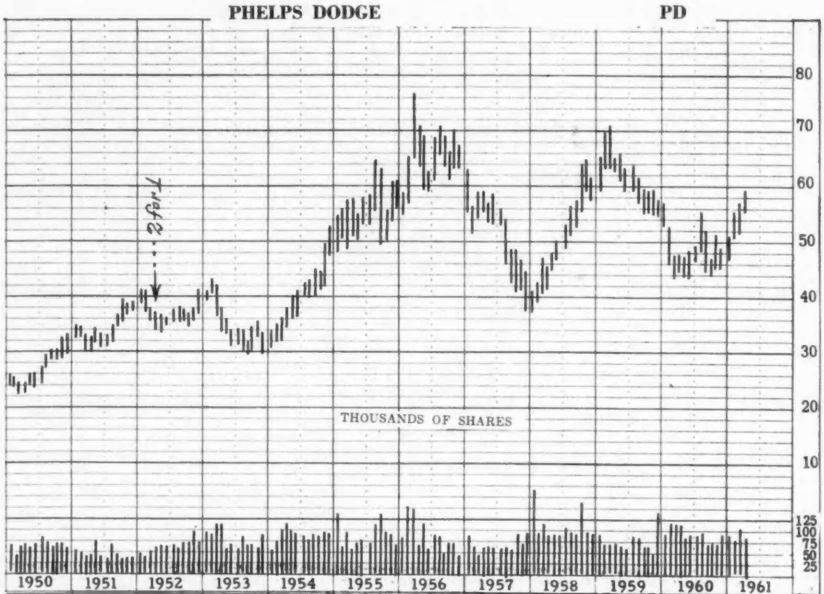
| | Johns-Manville Corp. | Phelps Dodge Corp. (Millions) | Youngs-Town Sheet & Tube |
|---|---|---|---|
| Common Stock and Surplus | $275.6 | $386.8 | $465.4 |
| No. of Common Shares Out. | 8.4 | 10.1 | 3.8 |
| Preferred Stock Stated Value | None | None | None |
| Long Term Debt | $ 2.5 | None | $165.3 |
| Cash & Marketable Secur. | $ 53.5 | $106.1 | $ 81.0 |
| Inventories, Net | $ 46.1 | $ 71.7 | $128.1 |
| Receivables, Net | $ 60.2 | $ 30.6 | $ 66.9 |
| Current Assets | $160.0 | $211.6 | $276.1 |
| Current Liabilities | $ 57.1 | $ 40.1 | $ 88.4 |
| Net Working Capital | $102.9 | $171.5 | $187.7 |
| Current Ratio (C.A. to C.L.) | 2.7 | 5.2 | 3.2 |
| Gross Property | $161.3 | $144.7 | $404.9 |
| Total Assets | $337.2 | $426.9 | $755.2 |
| Earnings Per Share 1960 | $ 3.12 | $ 3.68 | $ 7.38 |
| Recent Price of Common Stock | 73 | 65 | 114' |
| Price Earnings Ratio | 23.4[1] | 17.6[1] | 15.4 |
| Indicated 1960 Dividend | $ 2.00 | $ 3.00 | $ 5.00 |
| Dividend Yield | 2.7% | 4.6% | 4.3% |

1—Based on 1960 earnings.




| 1950 | 1951 | 1952 | 1953 | 1954 | 1955 | 1956 | 1957 | 1958 | 1959 | 1960 | 1961 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 3.61 | 3.88 | 3.57 | 3.10 | 2.62 | 3.67 | 3.50 | 2.48 | 2.82 | 3.73 | 3.12 | .25* | EARN. |
| 1.75 | 2.12½ | 2.12½ | 2.12½ | 2.12½ | 2.12½ | 2.25 | 2.00 | 2.00 | 2.00 | 2.00 | 2.00** | DIV. |
| 32.4 | 27.9 | 27.9 | 26.1 | 29.3 | 37.2 | 41.2 | 41.8 | 81.2 | 98.1 | 102.9 | | WORK.CAPITAL |

*First Quarter Earnings **Indicated 1961 Dividend




| 1950 | 1951 | 1952 | 1953 | 1954 | 1955 | 1956 | 1957 | 1958 | 1959 | 1960 | 1961 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 4.18 | 4.48 | 3.68 | 4.02 | 4.19 | 7.28 | 8.72 | 4.48 | 3.75 | 3.41 | 3.68 | .90* | EARN. |
| 2.50 | 3.00 | 3.00 | 2.60 | 3.00 | 3.10 | 5.00 | 4.30 | 3.00 | 3.00 | 3.00 | 3.00** | DIV. |
| 105.8 | 122.3 | 100.6 | 101.2 | 114.7 | 155.0 | 175.5 | 168.9 | 163.4 | 164.1 | 171.5 | | WORK.CAP.MIL $ |

*First Quarter Earnings **Indicated 1961 Dividend

mines and derives substantial revenues and profits from the sale of the balance to other industrial users of asbestos.

Research into new products and new building materials is a steady occupation at J-M and over the years has opened up scores of new revenue sources. The latest, and perhaps most important is the development of a new method of building homes that may well revolutionize the prefabricated market. The newly developed system permits simultaneous erection of exterior and interior wall surfaces ready for final finishing. The prefabricated panels used in this type of construction come complete with vapor barrier and insulation. The system is made possible because of a new board product specially developed at J-M and the use of special new adhesives.

Under the trade name Flex-Ponent, the new system will be formally launched in the near future and should be successful since the 4 x 8 panels can be used to construct houses of almost any architectural design. Hence, the "alikeness" that has plagued the prefab market until now may be overcome.

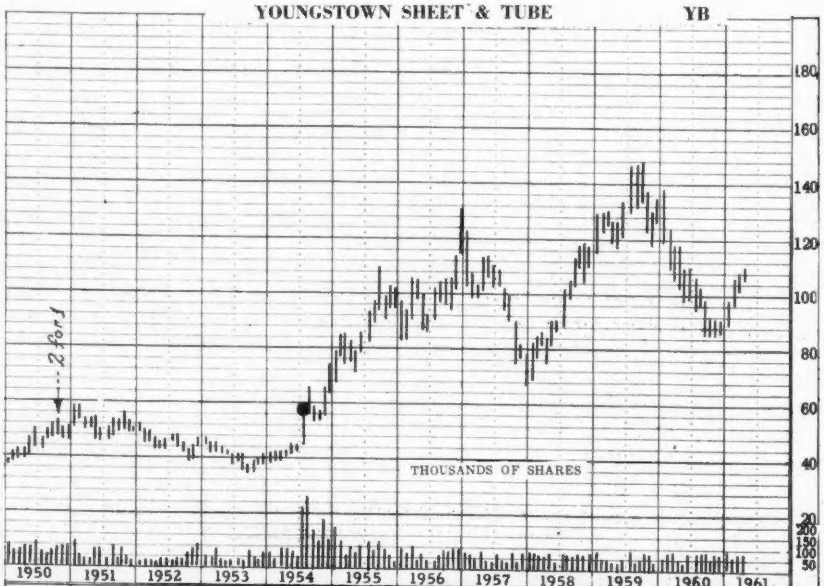
Financially, Johns-Manville is unassailable. Despite acquisitions, heavy research and development outlays and a growing capital spending program, working capital is more abundant than at any time in more than a decade. Moreover, long term debt has declined steadily since 1950 and is now a miniscule $2.5 million.

Further evidence of the company's excellent finances can be seen from the strong cash position. Cash and government securities are about equal to all current liabilities, and fall only about $5 million short of covering all debt, both long and short term. Book value of $32.52 has almost doubled since 1950, indicating a compounded earnings growth record of about 7% per year.

Dividends have been paid in every year since 1927. Currently, the rate is $2.00 per year covered by earnings of $3.12 per share in 1960. Overall coverage is more substantial however, since the company's rapidly rising depreciation and depletion allowances provide additional cash flow of approximately $2.00 per share.

The recession cut first quarter earnings sharply, hence little earnings improvement can be expected this year. Nevertheless, the average 7% per year growth over the last decade should at least be matched in the future, providing a sound growth picture for conservative investors.

**Phelps Dodge,** the second of our trio, is the second largest domestic copper producer. The company provides a unique investment in the metals industry since *(Please turn to page 337)*




| 1950 | 1951 | 1952 | 1953 | 1954 | 1955 | 1956 | 1957 | 1958 | 1959 | 1960 | 1961 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 12.12 | 9.14 | 6.84 | 9.21 | 6.02 | 12.34 | 12.62 | 12.35 | 6.23 | 8.90 | 7.38 | .77* | EARN. |
| 3.50 | 3.00 | 3.00 | 3.00 | 3.75 | 4.00 | 4.50 | 5.50 | 5.00 | 5.00 | 5.00 | 5.00** | DIV. |
| 177.9 | 177.3 | 170.7 | 159.3 | 183.0 | 218.1 | 220.8 | 200.8 | 227.6 | 200.8 | 187.7 | | WORK.CAP.MIL $ |

*First Quarter Earnings **Indicated 1961 Dividend

# THERE IS SHARP IMPROVEMENT IN THE DOMESTIC OILS

By BRYAN PYNOR

***— The stability produced by a tight rein on crude oil production — salutary effect of spotlighting abuses— cost cuts — and new type expansion — Companies in the best position — those moving ahead strongly — and those making minimum progress only***

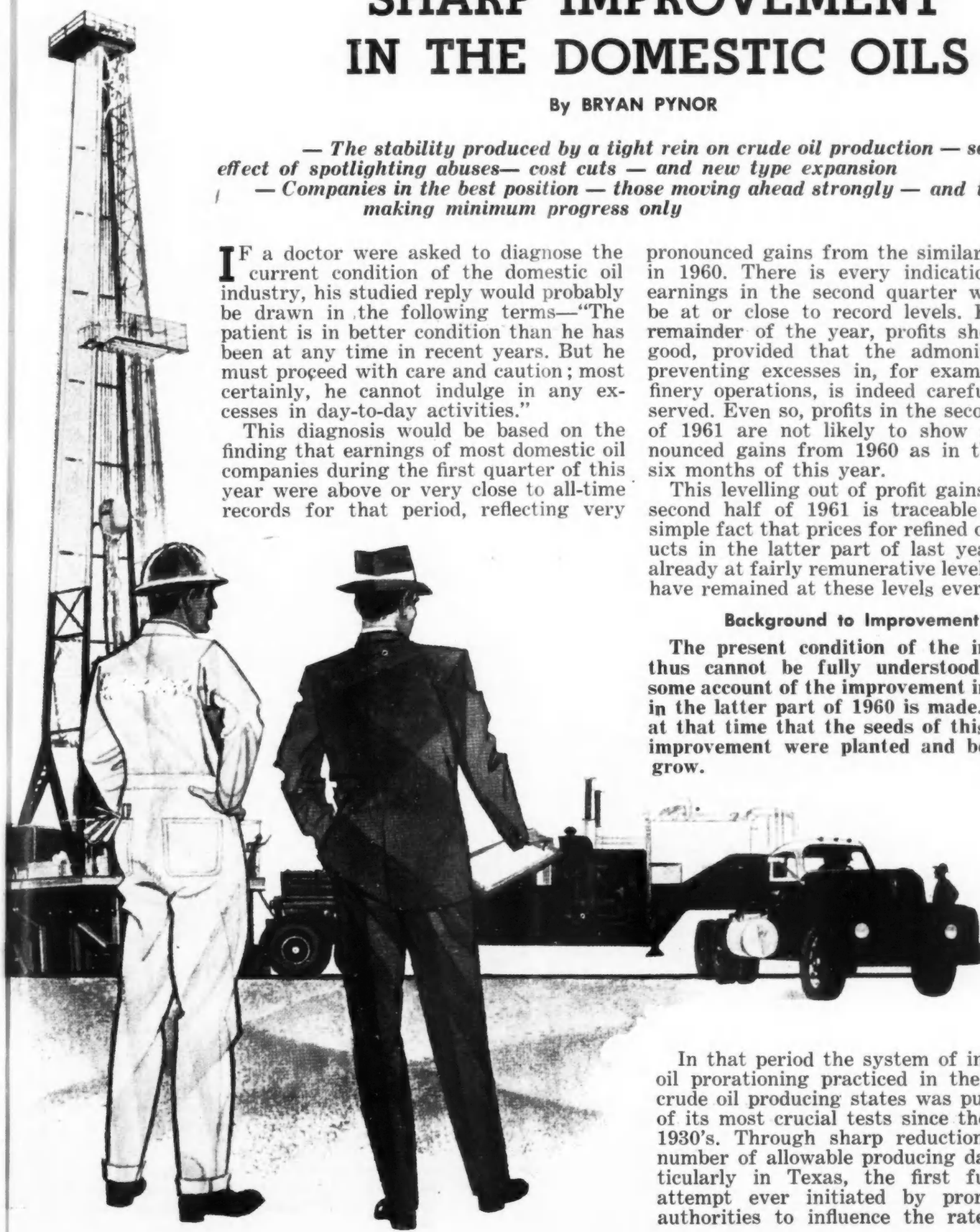
IF a doctor were asked to diagnose the current condition of the domestic oil industry, his studied reply would probably be drawn in the following terms—"The patient is in better condition than he has been at any time in recent years. But he must proceed with care and caution; most certainly, he cannot indulge in any excesses in day-to-day activities."

This diagnosis would be based on the finding that earnings of most domestic oil companies during the first quarter of this year were above or very close to all-time records for that period, reflecting very pronounced gains from the similar period in 1960. There is every indication that earnings in the second quarter will also be at or close to record levels. For the remainder of the year, profits should be good, provided that the admonition of preventing excesses in, for example, refinery operations, is indeed carefully observed. Even so, profits in the second half of 1961 are not likely to show as pronounced gains from 1960 as in the first six months of this year.

This levelling out of profit gains in the second half of 1961 is traceable to the simple fact that prices for refined oil products in the latter part of last year were already at fairly remunerative levels. They have remained at these levels ever since.

### Background to Improvement

**The present condition of the industry thus cannot be fully understood unless some account of the improvement in prices in the latter part of 1960 is made. It was at that time that the seeds of this year's improvement were planted and began to grow.**



In that period the system of interstate oil prorationing practiced in the leading crude oil producing states was put to one of its most crucial tests since the middle 1930's. Through sharp reduction in the number of allowable producing days, particularly in Texas, the first full-blown attempt ever initiated by prorationing authorities to influence the rate of do-

## Financial Statistics on 25 Leading Domestic Oil Companies

| | 1959 Net Sales (Mil.) | 1959 Net Per Share | 1960 Net Sales (Mil.) | 1960 Net Per Shares | 1st Quarter Earned Per Share 1960 | 1st Quarter Earned Per Share 1961 | Dividends Per Share 1960 | Dividends Per Share Indicated 1961'† | Price Range 1960-61 | Recent Prices | Div. Yield % |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Amerada Petroleum | $102.3 | $4.08 | $102.4 | $4.37 | $1.16 | $1.23 | $2.15 | $2.60 | 92⅜-55 | 92 | 2.8% |
| Ashland Oil & Refining | 300.6 | 2.10 | 303.6 | 2.12 | 1.02[1] | 1.06[1] | 1.00[6] | 1.00 | 28 -18 | 28 | 3.5 |
| Atlantic Refining | 541.2 | 3.19 | 561.2 | 5.00 | .93 | 1.60 | 2.00 | 2.00 | 60 -31¼ | 57 | 3.5 |
| Champlin Oil & Refining | 72.1 | 2.00 | 74.2 | 2.14 | .44 | .71 | 1.00 | 1.00 | 29⅞-17¼ | 29 | 3.4 |
| Cities Service Co. | 994.8 | 3.96 | 980.6 | 3.85 | 1.21 | 1.37 | 2.40 | 2.40 | 57¼-39⅜ | 56 | 4.2 |
| Continental Oil | 772.0 | 2.85 | 789.0 | 2.90 | .72 | .76 | 1.70 | 1.70 | 60½-40' | 58 | 2.9 |
| Kerr-Mc Gee Oil Indust. | 132.6[4] | 1.07[4] | 156.3[4] | 1.36[4] | 1.00[5] | 2.18[6] | .65 | .80 | 60 -18¾ | 52 | 1.5 |
| Louisiana Land & Explor. | 38.6 | 2.21 | 44.2 | 2.54 | .62 | .65 | 1.80 | 1.80 | 75 -42¾ | 74 | 2.4 |
| Ohio Oil | 344.8 | 2.76 | 351.9 | 2.84 | .74 | .75 | 1.60 | 1.60[6] | 45 -30⅛ | 42 | 3.8 |
| Phillips Petroleum | 1,163.0 | 3.05 | 1,200.1 | 3.29 | .75 | .80 | 1.70 | 1.70 | 60¼-41⅛ | 58 | 2.9 |
| Pure Oil | 499.5 | 3.32 | 523.6 | 3.29 | .68 | .69 | 1.60 | 1.60 | 39⅞-27⅜ | 36 | 4.4 |
| Richfield Oil | 269.9 | 3.48[7] | 298.9 | 3.56[7] | .87[7] | .67[7] | 1.75[7] | 2.05[7] | 53¾-34⅜ | 47 | 4.3 |
| Shamrock Oil & Gas | 57.0 | 2.64 | 65.9 | 3.00 | .59 | .62 | 1.60 | 1.60[6] | 50⅜-29⅞ | 47 | 3.2 |
| Shell Oil | 1,809.9 | 2.43 | 1,827.8 | 2.39 | .57 | .57 | 1.10 | 1.10 | 46⅞-30¼ | 44 | 2.5 |
| Sinclair Oil | 1,232.2 | 2.92 | 1,222.3 | 3.47 | .82 | 1.06 | 2.50 | 2.00 | 55⅞-33 | 43 | 4.6 |
| Skelly Oil | 257.6 | 4.68 | 254.9 | 4.32 | 1.03 | 1.15 | 1.80 | 1.80 | 61¼-37 | 57 | 3.1 |
| Standard Oil of Indiana | 1,956.8 | 3.90 | 2,005.8 | 4.05 | .89 | 1.23 | 1.40[8] | 1.40 | 55⅞-35 | 53 | 2.6 |
| Standard Oil of Kentucky | 404.0 | 5.65 | 411.0 | 5.29 | 1.30 | 1.14 | 3.25 | 3.25 | 81½-59 | 70 | 4.6 |
| Standard Oil of Ohio | 368.0 | 5.02 | 371.6 | 4.94 | 1.01 | 1.10 | 2.50 | 2.50 | 59¼-44½ | 57 | 4.3 |
| Sun Oil | 735.7 | 3.48 | 749.7 | 3.78 | .71 | .92 | 1.00[6] | 1.00 | 55¾-42¾ | 55 | 1.8 |
| Sunray Mid-Continent Oil | 450.9 | 2.25 | 463.7 | 2.10 | .48 | .57 | 1.32 | 1.32 | 28¼-20½ | 28 | 4.7 |
| Texas Gulf Producing | 17.6 | 1.04 | 18.3 | 1.16 | .30 | .28 | .60 | .60 | 41⅞-21⅛ | 35 | 1.7 |
| Texas Pacific Coal & Oil | 25.8 | 1.85 | 26.0 | 2.00 | .54 | .46 | 1.20 | 1.20 | 35¾-20½ | 31 | 3.8 |
| Tidewater Oil | 559.4 | 2.23 | 583.1 | 2.22 | .38 | .73 | [9] | — | 28¾-16⅝ | 27 | — |
| Union Oil of California | 423.8 | 3.35 | 440.5 | 3.96 | .65 | 1.05 | 1.50[6] | 2.00[6] | 63½-33⅛ | 62 | 3.2 |

†—Based on latest dividend reports.
1—6 mos. ended Mar. 31.
2—Year endtd April 30.
3—9 mos. ended Jan. 31.
4—Year ended June 30. (adj. for 2 for 1 stock split effective 5/26/1961.
5—9 mos. ended Mar. 31. (adj. for 2 for 1 stock split.
6—Plus stock.
7—Adjusted for 2 for 1 stock split effective 6/1/1961.
8—Plus 1/65 sh. of S. O. of N. J. with cash value of $.63 a share.
9—Paid 5% in stock.

**Amerada:** Strong domestic producer with very important play in Libya where production is likely to commence in second half of 1962. **A2**

**Ashland Oil & Refining:** Important refining and marketing company in Ohio Valley with relatively good prospects and future growth due to its secondary recovery operations and expanding interest in chemicals. **B1**

**Atlantic Refining:** Major East Coast marketer benefiting from increased crude production and economy program. Earnings are in rising trend. **B1**

**Champlin Oil & Refining:** Refiner and marketer in Midwest which stands to benefit from firmer refined production prices. **B1**

**Cities Service: Leading** East Coast marketer now engaged in program of upgrading crude production; above average yield. **B2**

**Continental Oil:** Excellent management with major oil company play in Libya. **A2**

**Kerr-McGee:** Engaged in oil and gas production, refining and marketing and uranium with major increase in earnings building up from the latter **C1**

**Louisiana Land:** Leading royalty company with best growth of earnings in the domestic oil industry. **A1**

**Ohio Oil:** Progressive medium-sized integrated unit in Ohio and Michigan. Potential enhanced by its stake in Libya. **B1**

**Phillips Petroleum:** A leader in chemicals and natural gas, as well as oil. Now expanding into East Coast markets and foreign oil production. **A1**

**Pure Oil:** Strong reserve position in both natural gas and crude oil. Currently being expanded through Lisbon oil play in Utah. **B2**

**Richfield Oil:** Improving prospects resulting from development of new oil reserves in Alaska. This is temporarily being offset to some extent by West Coast price wars. **B1**

**Shamrock Oil & Gas:** Good past growth likely to continue as a result of new natural gas discoveries. **B1**

**Shell Oil:** Leading integrated company with strong position in petrochemicals and top exploration record. **A2**

**Skelly Oil:** Major producer and LPG company; earnings have failed to return to previous peaks. **B4**

**Sinclair:** Efficiency program and favorable turn in refined products prices enabled company to show good earnings gains recently; dividend, cut last year, not likely to be restored. **B3**

**Standard of Indiana:** Leading Midwest marketer and refiner will do well as long as industry conditions are stable. **B2**

**Standard of Kentucky:** Major marketer in southeast, frequently rumored to be candidate for sale. **B2**

**Standard of Ohio:** Excellent management with leading position in Ohio, subject however to increased competition. **B2**

**Sun Oil:** Major marketer on East Coast moving heavily into petrochemicals in effort to build profits. **B2**

**Sunray:** Refiner and marketer in Mid-Continent seeking to build production segment of business above-average yield. **B3**

**Texas Gulf Producing:** Domestic producer with major stake in expanding exploration in Libya offers large speculative potentials for future. **C2**

**Texas Pacific Coal & Oil:** Important oil producer in Texas affected by cutback in producing allowables there. **B2**

**Tidewater:** Improving crude oil and natural gas production as well as expanded refining and marketing operations add to future potentials. **C1**

**Union Oil of Calif.: Major** West coast marketer with sharply rising earnings Outlook is promising. **B1**

**RATINGS: A—Best grade. B—Good grade. C—Speculative. D—Unattractive. 1—Improved earnings trend. 2—Sustained earnings trend. 3—Earnings up from lows. 4—Lower earnings trend.**

mestic refining operations was made. They based their action on the fact that if crude oil were denied refiners, it could not be processed by them. From time to time in the past few years, an improvement in domestic marketing and price conditions had been ruined by a super-abundance of refining operations. The strongest exhortations from industry leaders and government officials for industrial statesmanship had failed to dampen refining activity at these times. So, even though the prorationing mechanism was never intended to control the rate of refining operations, it was called upon to do so in 1960.

● The prorationing authorities in the various Southwestern producing states had been faced with the necessity of maintaining a tight rein on crude oil production ever since the reopening of the Suez Canal in 1957. **Since then, the demand for domestic crude oil and refined products had shown relatively little buoyance. ● In 1958, U. S. oil consumption declined slightly from the previous year; ● in 1959, an increase of only 3.2 per cent was recorded; ● and in 1960 a gain of only 2.3 per cent was registered.**

At the same time, the capacity of the industry both to produce crude oil and to refine was very large—greatly exceeding prevailing requirements. Naturally, the desire of individual producers and refiners to utilize as much of their capacity as possible so as to reduce unit costs was an eternal one. Throughout most of the 1957-1960 period, therefore, the output of refined products surpassed the market's ability to absorb such supplies at stable prices.

Through the end of 1959, prorationing authorities made little attempt to influence the rate of refining operations even indirectly. They were content with maintaining the crude oil market in reasonably good balance—a goal they readily achieved, for hardly at any time were crude oil stocks excessive. **It was the stemming of the excessive tide of refined products, however, which was the greatest problem the industry faced.**

### Dealing with the Oversupply Problem

► Beginning in the summer of 1960, the Texas Railroad Commission, the oil prorationing agency in that state, which is still responsible for over one-third of total U. S. crude oil production, addressed itself to this task. The rationale of the Texas Railroad Commission's behavior ever since then, has not only been the everlasting one of maintaining an orderly crude oil market, but also that of denying refiners more crude oil supplies than they need to meet demand and inventory requirements.

This sort of policy did not necessarily represent a brand new thought on the part of the Railroad Commission or anyone else in the industry. It naturally had been long recognized that the less crude oil available, the smaller the risk would be that refinery operations could exceed prudent rates. However, until 1959, the chances that the Railroad Commission could really influence refiners' activity was limited by the flow of crude oil imports into the United States. Any time the Commission reduced Texas production in order to reduce the availability of crude oil to refiners, it was apt to be fighting a losing battle because the refiners could process greater quantities of imported crudes. However, as soon as rather rigid controls were placed on imports, as they were in 1959, the possibility that Texas and the other producing states could actually influence refining operations was increased greatly.

► **Another problem which had affected containment of U. S. crude oil production was the failure of all major producing states to restrict production in a coordinated fashion.** In the past, for example, crude oil produced in Louisiana has frequently increased at a time when Texas was reducing its output. However, during the past twelve months, this problem has not been as serious as in previous years. This fact is evidence of the growing concern with which the major producing states outside Texas also viewed the industry's over-supply problems. The Interstate Oil Compact Commission has taken note of the problem of equity among various producing states and has established a committee for "Study of Equality of Opportunity of Oil Production Between Sovereign Producing States."

### Spotlight on Refiners

**But it should be emphasized that the Railroad Commission took even more unprecedented action than reducing sharply the number of allowable producing days in Texas. As essential as that was, the Commission took the further step of placing individual refiners under public surveillance. Again, its action was as simple in conception as it was unique.**

● Starting in the fall of 1960, all of the refiners operating in the Southwest were required to report monthly their crude runs to stills.

● The agency then gave full publicity to these reports. Its unstated but obvious aim was to pinpoint the companies which appeared to be operating their refineries at a rate that was not in keeping with the policy of restraint.

Many executives in the industry have taken to reading these reports on their own and their competitors' operations with keen interest. When they see what appears to be an excessive rate, they are not loath to express their opinion—although not in the open press. Of course, each man's opinion may vary as to what is an appropriate rate for refinery operations in periods of threatened inventory imbalance. Nevertheless, there is a fairly broad body of opinion within the industry as to which companies have been uncooperative.

This, of course, is what the Railroad Commission seems to have been aiming for. The Commission has been immeasurably aided by the full coverage given the refinery reports by the industry trade press. ● Indeed, the trade press has gone to considerable lengths to level the spotlight of editorial opinion and the weight of news columns on the reports. **In mid-winter, one of the leading industry journals alleged that two of the larger domestic oil companies had understated their report of runs to stills so as to minimize the rate at which they were operating their refineries. It was not difficult for anyone to draw the implication that these companies were not "playing the game according to the rules".**

### Improvement in Prices

● This stringent de facto control over refinery operations resulted in pronounced improvement in prices for most major refined oil products in the latter part of 1960. As the following table shows, refinery realizations in the Mid-Continent in December 1960 were 49¢ per barrel higher than they had been a year earlier, while at the Gulf Coast they were 18¢ per barrel higher. Realizations remained close to these levels during the first part of 1961. **While there was some** *(Please turn to page 342)*


# FOR PROFIT AND INCOME

### Discount Stores

There have always been some "cut-price" stores operating on the basis of no service, rapid turnover and narrow margins. Some made money, some went broke. Now this is called discount selling, more and more big concerns are getting into the act and mere announcement of intention to do so is enough to put a stock up several or more points. The latest example is Woolworth, which plans to establish the biggest chain of discount stores. Competition sets limits to profitability in any type of merchandising and will do so for the discount stores in due time — maybe when margins get down generally to the 2% or so characteristic of the food chains. Some of the latter have added general merchandise and discount selling in one-stop suburban shopping centers. Grand Union started this four or five years ago, and it has been no gold mine to date. Some of the former cut-price sellers of hard goods — Korvette, for example — have added foods, drugs, etc. In the end, maybe foods will become the "loss leaders" while the stores try to make a few dollars out of appliances, clothing and what not.

### Example

Interstate Department Stores was a do-nothing stock for many years, before the company acquired several large West-Coast discount stores in 1959, started its own chain of Family Fair discount department stores and bought a New England discount chain in 1960. Mostly during the last 12 months or so the stock rose about 50 points, getting to a high of 98¾. It is now around 90. Earnings for the year ended January 31 are estimated at $4.30 a share, against the prior year's $4.11. That's good, compared with 1958's depressed $2.06 or 1957's $3.31. But is it really growth? On much lower sales the campany earned $4.31 a share in 1956 and $6.45 as far back as 1950. When it was on a $2.50 dividend for some years, the stock never sold above 40. The dividend is now $1.20 plus 5% in stock. Is the gain in 1959 and 1960 earnings lasting, or a temporary recovery?

**INCREASES SHOWN IN RECENT EARNINGS REPORTS**

| | | 1961 | 1960 |
|---|---|---|---|
| Bristol-Myers | Quar. Mar. 31 | $ .63 | $ .55 |
| Certain-teed Products | Quar. Mar. 31 | .16 | .03 |
| Gulf, Mobile & Ohio R.R. | Quar. Mar. 31 | .48 | .30 |
| Nafi Corp. | Quar. Mar. 31 | .45 | .25 |
| Orange & Rockland Utils. | Quar. Mar. 31 | .73 | .67 |
| Richardson-Merrell | 9 mos. Mar. 31 | 2.25 | 2.10 |
| Tennessee Gas Transmission | Quar. Mar. 31 | .30 | .25 |
| Twin City Rapid Transit | Quar. Mar. 31 | .35 | .14 |
| Standard Kollsman Industries | Quar. Mar. 31 | .37 | .27 |
| Norwich Pharmacal | Quar. Mar. 31 | .40 | .35 |

We do not know. Only time will tell.

**Spiegel**

Spurred by strong sales for a time, this mail order stock had a good rise. However, first-quarter earnings gained only nominally, with sales up about 13% from a year ago and year-to-year sales increases probably will be less wide in the months ahead. Action of the stock is unsatisfactory. From a recent high of 64⅞, it has eased to around 51. Even so the profit is around 40% for readers who bought it on our recommendation here at 35¾ last October. We now advise profit taking.

**Inside The Market**

At this writing, stock groups behaving better than the market are principally automobiles, chemicals, coal, coppers, electrical equipment and appliances, finance companies, food brands, food stores, metal fabricating, paper, railroad equipment, steel, tires and electric utilities. Some current laggards are aircraft, baking, dairy products, drugs, electronics, gold mining, liquor, motion pictures, office equipment and oils.

**Strong**

A partial list of stocks performing well at this time includes Acme Steel, American Bank Note, American Optical, Anaconda, Armco Steel, Borman Food Stores, Calumet & Hecla, Carrier, duPont, Ford, General Motors, Getty Oil, Goodyear, Greyhound, Jones & Laughlin, Lerner Stores, Mack Trucks, Mueller Brass, Socony Mobil, Stewart-Warner, U. S. Plywood and White Motor.

**Lagging**

Stocks lagging at this writing include Allied Mills, Alcoa, Amphenol-Borg, Blaw Knox, Burroughs Corp., Bush Terminal, City Products, Collins Radio, Daystrom, General Cigar, General Baking, General American Transportation, General Time, Homestake Mining, Lehigh Portland Cement, McGraw-Hill, Owens-Corning, Outboard Marine, Penick & Ford, Panhandle Eastern Pipe Line, United Biscuit and Westinghouse Electric.

**Cyclical Stocks**

Among institutional funds and professional advisers there is some shift in preference away from growth stocks which have had huge advances to selected cyclical stocks, now that business recovery is definitely in progress. This would appear to be sound strategy — within reasonable limits. Most cyclical-type stock groups are up considerably from their 1960 lows and have risen roughly 10% to 20% during 1961 to date, or about in line with the industrial list on an average basis. Compared with past highs, they are less advanced than the market. Price-earnings ratios are, of course, far lower than those of growth stocks or typical income stocks; but that is always true. So, starting with the logical generalization that there has been some enhancement in the relative appeal of cyclical stocks, you still have to get down to cases on individual issues and do so with care.

**Automobiles**

In line with the general economic outlook, there are better sales and earnings ahead for the automobile industry. Because of a poor first half and the usual third-quarter slack, full-year profits will be well under last year's, but year-to-year gains should begin in the fourth quarter and be extended in 1962. We still think that Ford is the logical stock selection in this group, as was stated earlier at lower levels. The stock is now around 90 in a 1959-1961 range of 93½-50¾. These statistics would suggest limited possibilities, but Ford has "the makings" for topping its old high sooner and by a substantially wider margin than appears so for other automotive issues. It will have the smallest 1961 profit shrinkage of any in the industry: possibly only 10%-15%. Its sales by early May were above the year-ago level. Its share of the market has been enlarged. Despite the impact of compact cars on average selling prices, the company has a higher profit potential than ever before, due to increased automation and other gains in efficiency. To illustrate: Ford earned $1.39 a share in the depressed first quarter on unit output of 333,343 cars, against $0.55 on slightly higher output of 337,682 cars in the similarly depressed first 1958 quarter. Net last year was $7.79 a share, peak net was $8.51 in 1955, profit this year may be $6.60-$6.90, and 1962 earnings conceivably could be in the area of $9 to $10 a share. The company is cash rich, strongly managed. The stock might be split within 1962. In the vicinity of 13 times 1961 earnings and possibly 10 times 1962 earnings, Ford strikes us as still undervalued.

**Steels**

Steel stocks have further to go. Earnings can reach a pretty good level by the fourth quarter, despite higher wage rates and a hold-down on prices. Efficiency has been raised, especially via new oxygen-using facilities. It might take higher selling prices to get profits of most companies to new peaks in 1962. Some largely-improved smaller concerns could make an excellent 1962 showing on present prices. You have a wide range of choice in steel shares. U. S. Steel is outstanding. Among the major companies, Jones & Laughlin is a relatively high-leverage situation, which adds to speculative potentials in a recovery period. Among smaller companies, such stocks as Acme Steel, Crucible and Universal-Cyclops have promising potentials. END

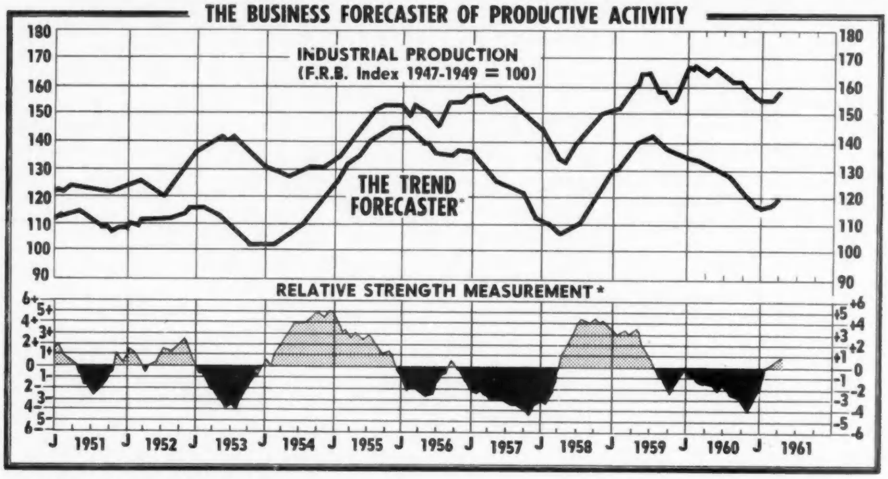
**DECREASES SHOWN IN RECENT EARNINGS REPORTS**

| | | 1961 | 1960 |
|---|---|---|---|
| American Chain & Cable | Quar. Mar. 31 | $ .54 | $1.22 |
| Ferro Corp. | Quar. Mar. 31 | .50 | 1.13 |
| American Motors Corp. | Quar. Mar. 31 | .12 | .80 |
| Baldwin-Lima-Hamilton | Quar. Mar. 31 | .04 | .12 |
| Cunningham Drug Stores | 6 mos. Mar. 31 | 1.51 | 2.04 |
| Foote Mineral Co. | Quar. Mar. 31 | .02 | .20 |
| National Acme Co. | Quar. Mar. 31 | .58 | .79 |
| Otis Elevator Co. | Quar. Mar. 31 | .55 | .74 |
| Pittsburgh Metallurgical | Quar. Mar. 31 | .17 | .62 |
| St. Louis-San Francisco Rwy. | Quar. Mar. 31 | .04 | .58 |

# *the* Business

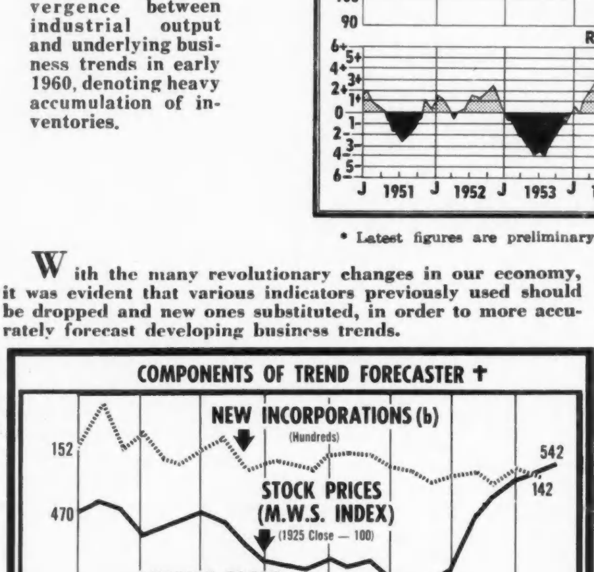
## Business Trend Forecaster

**INTERESTING TO NOTE — Sharp divergence between industrial output and underlying business trends in early 1960, denoting heavy accumulation of inventories.**




* Latest figures are preliminary.

**With the many revolutionary changes in our economy, it was evident that various indicators previously used should be dropped and new ones substituted, in order to more accurately forecast developing business trends.**




(†)—Seasonally adjusted except stock and commodity prices.
(a)—Computed from F. W. Dodge data.
(b)—Computed from Dun & Bradstreet data.

**This we have done in our *Trend Forecaster* (developed over a period of several years), which employs those indicators (see Components of Trend Forecaster) that we have found to most accurately project the business outlook.**

**As can be seen from the chart, industrial activity in itself is not a true gauge of the business outlook — the right answer can only be found when balanced against the state of our economy. The *Trend Forecaster* line does just that. When it changes directions up or down a corresponding change in our economy may be expected several months later.**

**The depth or height of the developing trend is clearly presented in our *Relative Strength Measurement* line, which reflects the rate of expansion or contraction in the making. When particularly favorable indications cause a rise that exceeds plus 3 for a period of time, a strong advance in general business is to be expected. On the other hand, penetration of minus 3 on the down side usually precedes an important contraction in our economy.**

***We believe that subscribers will find our Business Trend Forecaster of increasing usefulness both from the investment and business standpoints.***

### Current Indications of the Forecaster

Gains now clearly predominate among the eight sensitive indicators entering into the Trend Forecaster. On the basis of the latest available figures, four of the eight are now in pronounced uptrends; these are stock prices, new orders in durables industries, raw industrial commodity prices, and average hours worked. Movements among the other four series are mixed. Housing starts are well above recent lows, new incorporations and liabilities of business failures are marking time while only non-residential contract awards continue to decline.

The Relative Strength Measure has continued to rise in recent months, after crossing into positive ground in February. The preliminary figure for May is plus 1.9, about the highest figure since the middle of 1959. The rise in the Relative Strength Measure is now pointing toward further expansion of general business conditions in the next several quarters. Additional gains in the Measure in the months ahead would indicate that a more vigorous recovery was in the making.

# s Analyst

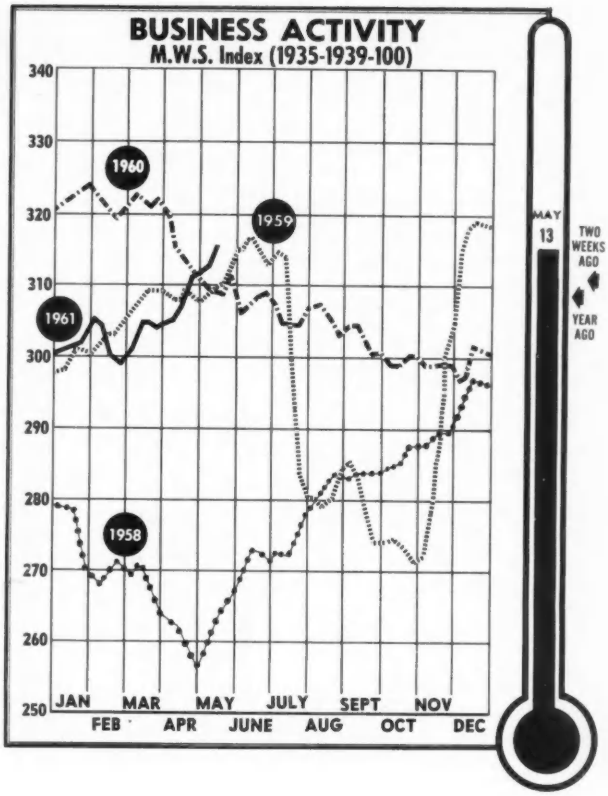
## CONCLUSIONS IN BRIEF

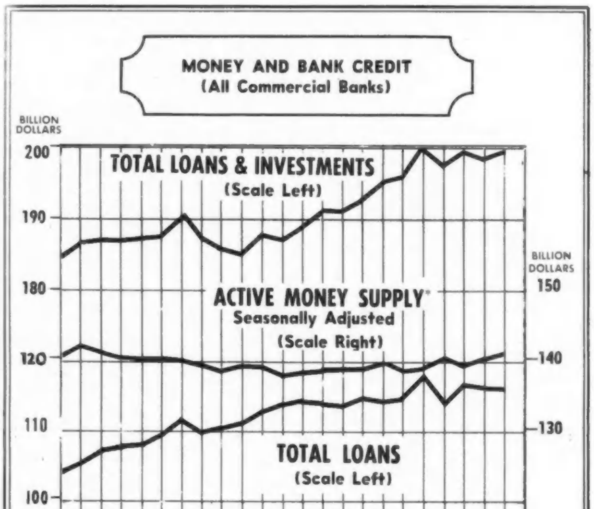
**PRODUCTION** — now rising over a fairly broad front. Gain still fast in steel, but now less rapid in autos. Machinery production improving, and some gains in many soft goods. Outlook: total output rising throughout second and third quarter.

**TRADE** — retail volume is strong, without being sensational. Temporarily, gains in income are outrunning gains in spending, and the saving rate is rising. Further advance in total retail trade probable for third quarter.

**MONEY & CREDIT** — the outlook for interest rates is stability for the next several months. Rising demand for funds is being offset by continuing easy monetary policy; Administration spokesmen make it clear they will try to maintain easy money despite recovery.

**COMMODITIES** — lull in prices, after pronounced gains in early 1961. Price shading in finished and semifinished goods, typical of recession, is now disappearing, but no important increases probable for at least several months.




WITH a clearly demarcated business trough now apparent in the figures for the first quarter of the year, the question about the business outlook has been rephrased from "when" to "how far and how fast". The Administration itself has gradually abandoned its caution about the outlook, and has now frankly stated the opinion that expansion is already in progress, and this opinion is now subscribed to by economists in both business and the academic world.

The initial speed of the recovery is also duly noted. The industrial production index, a very widely watched figure, executed an encouragingly sharp turnaround in the second quarter, suggesting that the shape of 1961 as a whole is more likely to resemble 1958 (when recovery began immediately after a trough) than 1954 (when recovery took about six months to get started). In addition, manufacturers' orders and sales are recovering promptly, employment has started to rise, and personal incomes have climbed.

In all of this there is little to argue with. The big aggregate statistics on the U.S. economy are the best in the world, and they speak with some authority. The gross national product for the second quarter, when the figure becomes available, is going to be substantially above the first quarter, and this will doubtless set off another little boomlet of confirmed optimism. Nevertheless, one is entitled to note that at this early point in recovery, its eventual rate and duration are still very much unknown

*(Please turn to the following page)*

# Essential Statistics

| THE MONTHLY TREND | Unit | Month | Latest Month | Previous Month | Year Ago |
|---|---|---|---|---|---|
| INDUSTRIAL PRODUCTION* (FRB) | 1947-'9-100 | Mar. | 159 | 155 | 165 |
| Durable Goods Mfr. | 1947-'9-100 | Mar. | 160 | 154 | 172 |
| Nondurable Goods Mfr. | 1947-'9-100 | Mar. | 159 | 156 | 159 |
| Mining | 1947-'9-100 | Mar. | 127 | 126 | 129 |
| RETAIL SALES* | $ Billions | Apr. | 18.0 | 18.2 | 18.9 |
| Durable Goods | $ Billions | Apr. | 5.5 | 5.6 | 6.3 |
| Nondurable Goods | $ Billions | Apr. | 12.5 | 12.6 | 12.6 |
| Dep't Store Sales | 1947-'9-100 | Apr. | 145 | 145 | 138 |
| MANUFACTURERS' | | | | | |
| New Orders—Total* | $ Billions | Mar. | 29.8 | 29.1 | 30.3 |
| Durable Goods | $ Billions | Mar. | 13.9 | 13.4 | 14.6 |
| Nondurable Goods | $ Billions | Mar. | 16.0 | 15.8 | 15.7 |
| Shipments* | $ Billions | Mar. | 29.5 | 29.0 | 30.8 |
| Durable Goods | $ Billions | Mar. | 13.7 | 13.3 | 15.2 |
| Nondurable Goods | $ Billions | Mar. | 15.8 | 15.7 | 15.7 |
| BUSINESS INVENTORIES, END. MO.* | $ Billions | Mar. | 91.1 | 91.7 | 92.3 |
| Manufacturers' | $ Billions | Mar. | 53.3 | 53.6 | 54.3 |
| Wholesalers' | $ Billions | Mar. | 13.3 | 13.2 | 12.8 |
| Retailers' | $ Billions | Mar. | 24.4 | 24.8 | 25.1 |
| Dept. Store Stocks | 1947-'9-100 | Mar. | 163 | 161 | 162 |
| CONSTRUCTION TOTAL—t | $ Billions | Apr. | 55.8 | 54.8 | 54.2 |
| Private | $ Billions | Apr. | 38.5 | 37.6 | 38.7 |
| Residential | $ Billions | Apr. | 20.9 | 20.1 | 21.9 |
| All Other | $ Billions | Apr. | 17.6 | 17.5 | 16.8 |
| Housing Starts*—a | Thousands | Apr. | 1203 | 1285 | 1327 |
| Contract Awards, Residential—b | $ Millions | Apr. | 1454 | 1371 | 1480 |
| All Other—b | $ Millions | Apr. | 1843 | 1795 | 1880 |
| EMPLOYMENT | | | | | |
| Total Civilian | Millions | Apr. | 65.7 | 65.5 | 66.2 |
| Non-farm* | Millions | Apr. | 52.4 | 52.2 | 53.1 |
| Government* | Millions | Apr. | 8.7 | 8.7 | 8.5 |
| Trade* | Millions | Apr. | 11.5 | 11.5 | 11.7 |
| Factory* | Millions | Apr. | 11.5 | 11.4 | 12.3 |
| Hours Worked* | Hours | Apr. | 39.5 | 39.3 | 39.6 |
| Hourly Earnings | Dollars | Apr. | 2.33 | 2.32 | 2.28 |
| Weekly Earnings | Dollars | Apr. | 91.34 | 90.71 | 89.60 |
| PERSONAL INCOME* | $ Billions | Apr. | 410 | 410 | 402 |
| Wages & Salaries | $ Billions | Apr. | 274 | 272 | 272 |
| Proprietors' Incomes | $ Billions | Apr. | 61 | 61 | 60 |
| Interest & Dividends | $ Billions | Apr. | 42 | 42 | 40 |
| Transfer Payments | $ Billions | Apr. | 32 | 34 | 29 |
| Farm Income | $ Billions | Apr. | 17 | 17 | 16 |
| CONSUMER PRICES | 1947-'9-100 | Apr. | 127.5 | 127.5 | 126.2 |
| Food | 1947-'9-100 | Apr. | 121.2 | 121.2 | 118.5 |
| Clothing | 1947-'9-100 | Apr. | 109.5 | 109.8 | 108.9 |
| Housing | 1947-'9-100 | Apr. | 132.3 | 132.5 | 131.4 |
| MONEY & CREDIT | | | | | |
| All Demand Deposits*—u | $ Billions | Apr. | 113.3 | 112.1 | 111.2 |
| Bank Debits*—g | $ Billions | Apr. | 97.3 | 98.4 | 96.8 |
| Business Loans Outstanding—c, u | $ Billions | Apr. | 31.5 | 32.0 | 30.9 |
| Instalment Credit Extended*—u | $ Billions | Mar. | 4.0 | 3.8 | 4.3 |
| Instalment Credit Repaid*—u | $ Billions | Mar. | 4.0 | 4.0 | 3.8 |
| FEDERAL GOVERNMENT | | | | | |
| Budget Receipts | $ Billions | Mar. | 8.5 | 6.5 | 9.6 |
| Budget Expenditures | $ Billions | Mar. | 7.0 | 6.2 | 6.4 |
| Defense Expenditures | $ Billions | Mar. | 4.3 | 3.8 | 4.0 |
| Surplus (Def) cum from 7/1 | $ Billions | Mar. | (4.7) | (6.2) | (2.7) |

## PRESENT POSITION AND OUTLOOK

quantities. How long can the 2½%-per-month rate of increase in output be maintained? And what can be expected to develop in the major areas of final demand which must eventually underwrite this business cycle recovery if it is to be long sustained?

To raise these questions is not simply to borrow trouble. For the fact is that the present rate of recovery owes its encouraging speed to developments in only a very few sectors. It reflects, for example, a sharp advance in the steel rate, from a point at which considerable liquidation of steel stocks was still occurring. Now, however, steel inventories are rising as a result of the upturn in output.

Similarly with automobiles: the automotive production rate was drastically curtailed in the first quarter of the year, as a reflection of heavy dealer stocks. The stocks obligingly subsided when the production rate was cut, but they are no longer subsiding, and the industry will evidently go into the third quarter with stocks of about 900,000 new cars on hand. This is not a disastrous excess, by any means; but it does mean that production in the third quarter will have to be quite low, and this will exert a drag on aggregate measures such as the industrial production index.

And how about plant and equipment, another vital end-product market? Will the demand for fixed investment facilities advance in the last half of the year? The Commerce Department says yes, but the evidence is still pretty thin, and the case is far from closed.

Finally, there is the puzzle of the housing market. Fannie May has been put in a position to play a more active role in financing housing, and 40-year mortgages will evidently soon be the latest wrinkle in residential credit. But how strong is the market itself? Here too the evidence is still far from conclusive. In April, the starts rate went down a little, and no great improvement has appeared in May. Interest rates on mortgages never got very low during the recession; in fact they stayed quite high by postwar standards, and it is hard to see how they will ease much over the next six months. It is already get-

# and Trends

## QUARTERLY STATEMENT FOR THE NATIONAL ECONOMY

**In Billions of Dollars—Seasonally Adjusted, at Annual Rates**

| SERIES | 1961 Quarter I | 1960 Quarter IV | 1960 Quarter III | 1960 Quarter I |
|---|---|---|---|---|
| **GROSS NATIONAL PRODUCT** | 499.5 | 503.5 | 503.5 | 501.3 |
| Personal Consumption | 329.0 | 330.8 | 328.3 | 323.3 |
| Private Domestic Invest. | 61.0 | 66.0 | 70.8 | 79.3 |
| Net Exports | 5.0 | 4.6 | 3.7 | 1.2 |
| Government Purchases | 104.5 | 102.1 | 100.7 | 97.5 |
| Federal | 54.5 | 53.3 | 52.7 | 51.8 |
| State & Local | 50.0 | 48.8 | 48.0 | 45.7 |
| **PERSONAL INCOME** | 407.5 | 408.5 | 408.0 | 396.2 |
| Tax & Nontax Payments | 50.4 | 50.4 | 50.5 | 49.2 |
| Disposable Income | 357.2 | 358.1 | 357.5 | 347.0 |
| Consumption Expenditures | 329.0 | 330.8 | 328.3 | 323.3 |
| Personal Saving—d | 28.1 | 27.2 | 29.2 | 23.7 |
| **CORPORATE PRE-TAX PROFITS** | | | 41.5 | 48.8 |
| Corporate Taxes | | | 20.3 | 23.8 |
| Corporate Net Profit | | | 21.3 | 25.0 |
| Dividend Payments | 14.0 | 14.1 | 14.0 | 13.9 |
| Retained Earnings | | | 7.3 | 11.0 |
| **PLANT & EQUIPMENT OUTLAYS** | 34.4 | 35.5 | 35.9 | 35.2 |

## THE WEEKLY TREND

| | | Week Ending | Latest Week | Previous Week | Year Ago |
|---|---|---|---|---|---|
| MWS Business Activity Index* | 1935-'9-100 | May 13 | 315.6 | 313.1 | 315.3 |
| MWS Index—Per capita* | 1935-'9-100 | May 13 | 224.8 | 224.0 | 229.0 |
| Steel Production Index* | 1957-'9-100 | May 13 | 106.7 | 104.3 | 112.8 |
| Auto and Truck Production | Thousands | May 20 | 161 | 163 | 194 |
| Paperboard Production | Thousand Tons | May 13 | 320 | 326 | 311 |
| Paperboard New Orders | Thousand Tons | May 13 | 309 | 371 | 304 |
| Electric Power Output* | 1947-'49-100 | May 13 | 290 | 290 | 278 |
| Freight Carloadings | Thousand Cars | May 13 | 551 | 544 | 640 |
| Engineerings Constr. Awards | $ Millions | May 18 | 411 | 560 | 498 |
| Department Store Sales | 1947-'9-100 | May 13 | 157 | 140 | 134 |
| Demand Deposits—c | $ Billions | May 10 | 62.2 | 62.6 | 61.2 |
| Business Failure—s | Number | May 9 | 368 | 399 | 304 |

## PRESENT POSITION AND OUTLOOK

ting a little late for any pronounced housing boom in 1961, and there is a growing disposition among housing analysts to write up the year as a standoff insofar as housing is concerned.

There is still much doubt, therefore, about the course of real private demand for goods. Not so, however, about government demand. Defense spending is clearly on a new gradient, thanks in part to the natural reappraisal by a new administration, and thanks also to Laos, Cuba, and a few other trouble spots in the cold war. Even outside of defense, the Federal budget portends increasing government demand for goods, and increased net payments to the public.

At the moment, the encouragement in the outlook takes the form of inventory rebuilding and government outlays, rather than clear indication of a new private boom. The combination is, temporarily, enough to keep business itself on a rising trend, and business sentiment strongly optimistic. But by the fall, more tangible evidence that consumers and business itself are coming into the market in typical cyclical fashion will be required to maintain both business and sentiment in a rising trend.

*Seasonally adjusted. (a)—Private starts, at annual rates. (b)—F. W. Dodge unadjusted data. (c)—Weekly reporting member banks. (d)—Excess of disposable income over personal consumption expenditures. (e)—Estimated. (f)—Estimated by Council of Economic Advisors. (g)—337 non-financial centers. (na)—Not available. (r)—Revised. (s)—Data from Dun & Bradstreet. (t)—Seasonally adjusted, annual rate. (u)—End of month data. Other Sources: Federal Reserve Bd., Commerce Dept., Securities & Exch. Comm., Budget Bureau.

## THE MAGAZINE OF WALL STREET COMMON STOCK INDEXES

| No. of Issues (1925 Cl.—100) | 1960-61 High | 1960-61 Low | 1961 May 12 | 1961 May 19 |
|---|---|---|---|---|
| Composite Average | 550.0 | 410.9 | 545.1 | 550.0H |
| 4 Agricultural Implements | 497.2 | 346.4 | 493.3 | 497.2 |
| 3 Air Cond. ('53 Cl.—100) | 176.9 | 105.8 | 173.2 | 176.9H |
| 10 Aircraft & Missiles | 1329.2 | 861.9 | 1329.2 | 1297.0 |
| 7 Airlines ('27 Cl.—100) | 1163.6 | 736.7 | 1163.6 | 1122.9 |
| 4 Aluminum ('53 Cl.—100) | 521.3 | 354.5 | 433.5 | 465.6 |
| 5 Amusements | 427.0 | 209.3 | 427.0 | 414.6 |
| 5 Automobile Accessories | 531.1 | 401.0 | 483.6 | 491.7 |
| 5 Automobiles | 157.0 | 90.8 | 104.4 | 110.8 |
| 3 Baking ('26 Cl.—100) | 44.6 | 34.9 | 41.8 | 41.8 |
| 4 Business Machines | 2008.2 | 1159.1 | 2008.2 | 1929.9 |
| 6 Chemicals | 864.8 | 657.3 | 835.0 | 864.8H |
| 3 Coal Mining | 38.4 | 27.2 | 37.0 | 38.4H |
| 4 Communications | 257.6 | 199.9 | 242.3 | 244.5 |
| 9 Construction | 231.8 | 143.3 | 231.8 | 231.8 |
| 5 Container | 1074.3 | 824.6 | 1057.0 | 1074.3H |
| 5 Copper Mining | 399.3 | 275.4 | 377.3 | 399.3H |
| 2 Dairy Products | 232.4 | 146.8 | 224.3 | 222.3 |
| 5 Department Stores | 185.7 | 135.2 | 184.2 | 185.7H |
| 5 Drugs-Eth. ('53 Cl.—100) | 474.7 | 360.4 | 438.1 | 442.1 |
| 5 Elect. Eqp. ('53 Cl.—100) | 395.6 | 310.7 | 385.3 | 395.6H |
| 3 Finance Companies | 1027.5 | 648.8 | 971.3 | 1027.5H |
| 5 Food Brands | 713.7 | 419.3 | 702.6 | 713.7 |
| 3 Food Stores | 326.0 | 232.1 | 303.2 | 326.0H |

| (Nov. 14, 1936 Cl.—100) | High | Low | May 12 | May 19 |
|---|---|---|---|---|
| High Priced Stocks | 336.4 | 262.7 | 329.9 | 336.4H |
| Low Priced Stocks | 725.6 | 527.6 | 725.5 | 725.6H |
| 5 Gold Mining | 1226.0 | 810.8 | 1018.0 | 1018.0 |
| 4 Investment Trusts | 170.6 | 136.5 | 160.9 | 160.9 |
| 3 Liquor ('27 Cl.—100) | 1548.9 | 1098.2 | 1548.9 | 1513.7 |
| 7 Machinery | 647.3 | 402.9 | 632.7 | 647.3H |
| 3 Mail Order | 494.2 | 364.2 | 453.7 | 453.7 |
| 4 Meat Packing | 298.3 | 223.9 | 287.5 | 295.7 |
| 4 Mtl. Fabr. ('53 Cl.—100) | 208.6 | 132.4 | 189.5 | 195.2 |
| 9 Metals, Miscellaneous | 449.8 | 313.3 | 449.8 | 449.8 |
| 4 Paper | 1237.1 | 867.3 | 1070.5 | 1119.6 |
| 16 Petroleum | 828.6 | 609.0 | 821.4 | 814.3 |
| 16 Public Utilities | 472.4 | 341.6 | 468.4 | 472.4H |
| 6 Railroad Equipment | 110.9 | 75.8 | 110.9 | 110.1 |
| 17 Railroads | 70.1 | 49.9 | 58.1 | 60.2 |
| 3 Soft Drinks | 1096.6 | 690.3 | 1068.5 | 1068.5 |
| 11 Steel & Iron | 464.9 | 325.4 | 400.5 | 424.3 |
| 4 Sugar | 100.9 | 63.0 | 79.5 | 80.1 |
| 2 Sulphur | 832.4 | 563.1 | 825.3 | 825.3 |
| 11 TV & Electron. ('27—100) | 129.4 | 86.8 | 129.4 | 126.5 |
| 5 Textiles | 258.4 | 183.3 | 242.9 | 244.8 |
| 3 Tires & Rubber | 255.9 | 170.6 | 206.3 | 226.3 |
| 5 Tobacco | 282.3 | 182.5 | 277.7 | 282.3 |
| 3 Variety Stores | 391.8 | 349.3 | 370.7 | 391.8H |
| 16 Unclassifd (49 Cl. — 100) | 337.7 | 224.0 | 337.7 | 333.0 |

H—New High for 1960-1961.

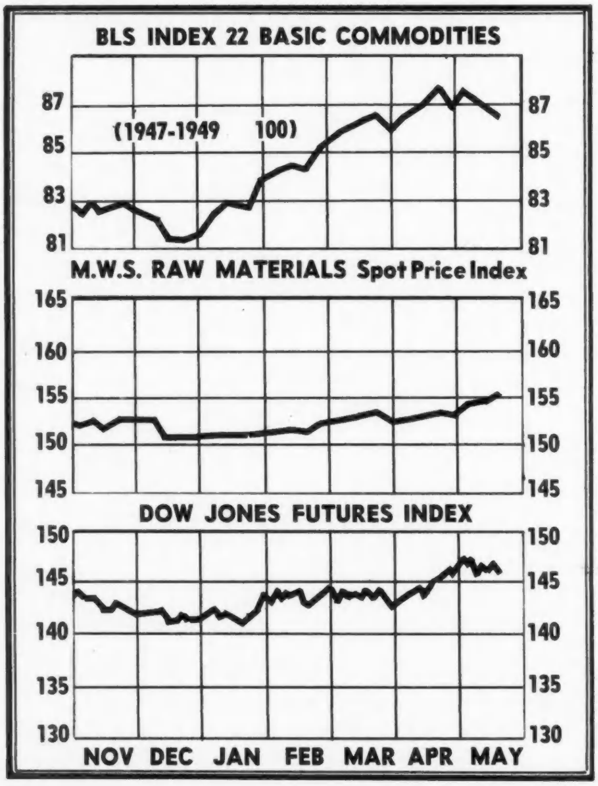
# Trend of Commodities

**SPOT MARKETS**—Among leading commodities, food prices continued their seasonal decline in the two weeks ending May 19, while raw industrial materials were mixed. The BLS daily index of 22 leading commodities lost 0.9% during the period, mainly due to a 2.2% drop in the foodstuffs component. At the same time, raw industrial materials were down a negligible 0.1%. In the latter group, hides, print cloth, wool tops and steel scrap were lower while copper scrap, tin, cotton, rubber and tallow advanced.

Meanwhile the broad range of commodities, as measured by the BLS wholesale price index, have been giving ground slowly in recent weeks. Foods have accounted for part of the drop, but some industrial materials have also weakened. Mixed markets with no definite price trend may be with us for some time.

**FUTURES MARKETS**—Most commodity futures sought lower levels in the two weeks ending May 19, although changes were small in most cases, Wheat, soybeans, lard, cotton, wool tops, coffee, cocoa, hides and rubber all moved down while corn, oats, rye, copper and lead advanced, The Dow-Jones Commodity Futures Index lost 1.2 points to close at 145.8.

Wheat futures were off slightly in the period under review. The July option, for example, lost only ¼ cent and other months showed similarly small changes. The new crop is making about normal progress although some areas have experienced unfavorable growing conditions. A large harvest is expected but the Government loan program stands as a strong supporting factor. Political efforts to secure a higher loan level will continue but their chances of success are hard to appraise at present.



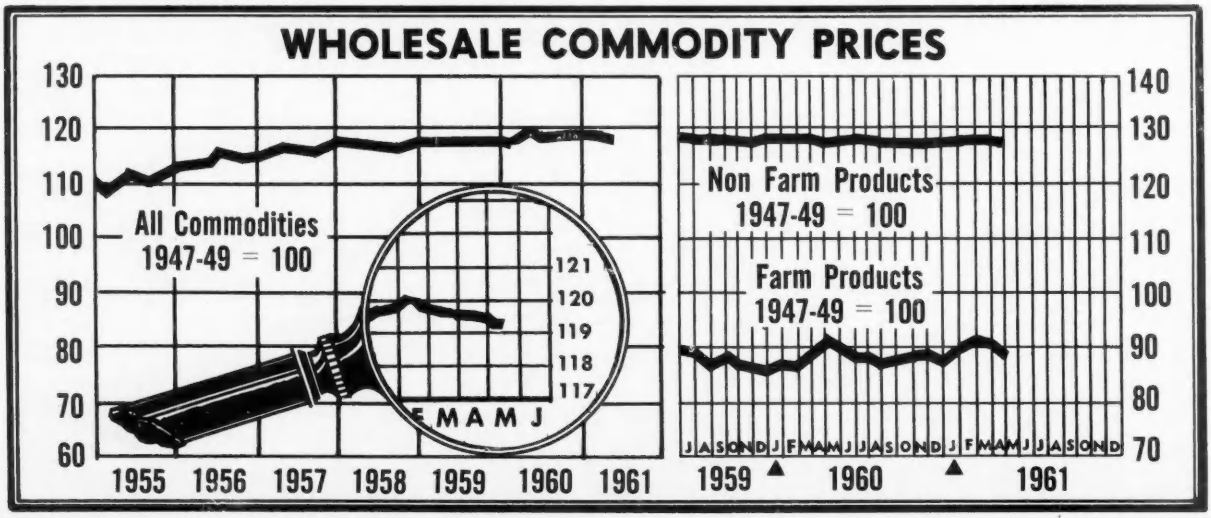

| BLS PRICE INDEXES 1947-1949—100 | Date | Latest Date | 2 Weeks Ago | 1 Yr. Ago | Dec. 6 1941 |
|---|---|---|---|---|---|
| All Commodities | May 16 | 119.1 | 119.3 | 119.7 | 60.2 |
| Farm Products | May 16 | 87.3 | 87.4 | 90.4 | 51.0 |
| Non-Farm Products | May 16 | 127.9 | 128.0 | 128.2 | 67.0 |
| 22 Sensitive Commodities | May 19 | 86.5 | 87.3 | 86.3 | 53.0 |
| 9 Foods | May 19 | 76.8 | 78.5 | 77.1 | 46.5 |
| 13 Raw Ind'l. Materials | May 19 | 93.7 | 93.8 | 93.1 | 58.3 |
| 5 Metals | May 19 | 94.4 | 93.8 | 93.0 | 54.6 |
| 4 Textiles | May 19 | 82.0 | 82.6 | 81.7 | 56.3 |

### MWS SPOT PRICE INDEX
14 RAW MATERIALS
1923-1925 AVERAGE—100
AUG. 26, 1939—63.0 Dec. 6, 1941—85.0

| | 1961 | 1960 | 1959 | 1953 | 1951 | 1941 |
|---|---|---|---|---|---|---|
| High of Year | 155.5 | 160.0 | 161.4 | 162.3 | 215.4 | 85.7 |
| Low of Year | 150.5 | 151.1 | 152.1 | 147.9 | 176.4 | 74.3 |
| Close of Year | | 151.2 | 158.3 | 152.1 | 180.8 | 83.5 |

### DOW-JONES FUTURES INDEX
12 COMMODITIES
AVERAGE 1924-1926—100

| | 1961 | 1960 | 1959 | 1953 | 1951 | 1941 |
|---|---|---|---|---|---|---|
| High of Year | 147.7 | 148.7 | 152.7 | 166.8 | 215.4 | 84.6 |
| Low of Year | 141.2 | 141.2 | 144.2 | 153.8 | 174.8 | 55.5 |
| Close of Year | | 141.2 | 147.8 | 166.5 | 189.4 | 84.1 |



# Highlights of 1960

**LAST YEAR** was another year of accomplishment for the South and for Southern Railway that "Serves the South." The economy of the region continued to diversify and expand. In fact, industrial growth along our lines in 1960, representing a total investment of almost half a billion dollars, was greater than in any year since 1956.

Several major developments undertaken by us which, we believe, will favorably affect the future welfare of Southern and the South it serves, reached their final form in 1960:

*Approval of our purchase of the 88-mile Interstate Railroad, which serves bituminous-rich coal fields in southwest Virginia, was recommended by an Interstate Commerce Commission Examiner. This has now been approved by the Commission.*

*A 71% stock interest in the 1,956-mile Central of Georgia Railway was contracted for, subject to Interstate Commerce Commission approval.*

*A substantial interest was acquired in Republic Carloading and Distributing Company.*

*Stock was acquired in Trailer Train Company and Southern went into containerized freight-piggyback-service in a major way.*

*Our Management was streamlined to place our Operating and Traffic Departments under the jurisdiction of an Executive Vice President, to insure the closest possible coordination of our service and sales functions.*

*More than 1400 new freight cars costing about $29½ million were placed in service – making a total investment of $154 million in new freight cars during the past ten years, many of them special purpose cars of unique design, developed by Southern.*

Some of the above have been under consideration for a number of years. All of them will enable us to provide ever-better rail transportation, so vital to the continued economic development of the modern, fast-growing South.

Harry A. DeButts
PRESIDENT

**SOUTHERN RAILWAY SYSTEM**
WASHINGTON, D. C.

### What "Insiders" Are Selling And Buying . . .

*(Continued from page 309)*

for their own shares in any marketable stocks at current value. This exchange may be made on a tax-free basis by wealthy investors with large paper profits, who thereby gain diversification and can still postpone the capital gains levy until the trust shares are sold.

In March, for the first time, exchanges of insider holdings for the shares of these new funds were reported separately by the SEC. In that single month alone 25 officers or directors turned in a total of 405,577 shares of their own companies for participation in the mutual funds. Among the companies included in our 200-company insider index the following shares were swapped: **Goodrich,** 2,000; **Hooker Chemical,** 2,485; **International Paper,** 13,000; **Philip Morris,** 2,100; and **Schering Corp.,** 2,000. **These shares, a total of 21,585, were also excluded from the sales reported above and included in the chart.**

Among other companies, some of the largest transfers to the new funds were: 46,000 shares of **McDonnell Aircraft,** by J. S. McDonnell, president; 15,000 **Lehn & Fink,** by Edward Plaut, president; 20,000 shares of **Gulton Industries,** by Leslie K. Gulton, chairman; 10,600 shares of **Holt, Rinehart & Winston,** by C. W. Barrett, a director; 100,000 shares of **San Diego Imperial,** the new and rapidly growing savings and loan chain, by G. L. Schlessman, a director; and 50,000 shares of **Winn-Dixie Stores,** by President A. D. Davis. These insiders showed by their deeds that they recognized advantages in a more diversified list of stocks.

**One handicap of the "swap" funds is that these payments in kind are permitted on a tax-free basis only while the new company is being organized.** Thus, the privilege terminates abruptly within a limited period, and thereafter the sponsors can expand only by the creation of new entities separately incorporated. The scheme is also being examined critically by the Revenue Department as a possible loophole, and it could be legislated out of existence. For the moment, however, these funds have met an obvious and urgent need on the part of corporate insiders burdened by their concentrated holdings.

#### Secondary Offerings Accelerated

Another evidence of insider sentiment is the volume of secondary distributions. "Secondaries" are the organized distributions of stock already outstanding, where the proceeds go to selling stockholders, often members of the founding families, rather than to the companies themselves. 1959 was the biggest year on record for secondaries and it is not likely to be exceeded on a dollar basis in the early future unless some particularly heavy offering like **Ford** and **A & P** recur, but a larger number of important issues now seem to be hitting the

market by this route. Ordinarily, the first quarter has not been a popular season for secondaries, but the high prices recently prevailing have certainly offered an incentive for a greater volume of such large-scale distributions.

Most of these offerings have consisted of stocks already familiar to the public, but the noteworthy **Pocket Books** distribution in January represented the first opportunity for the public to participate in that well-known enterprise. On top of the general speculative flavor in the market publishing stocks have enjoyed a particular vogue recently, with the result that Pocket Books, offered at 26, advanced immediately to 35½ bid.

This 570,000 share, $15 million offering has been the largest of the year in share volume, but was exceeded in value by both the **Aetna** and **Travelers Life Insurance** offerings, curiously involving the mutual sale of each other's shares by the two companies. Aetna also disposed of its holdings of two other insurance organizations, not listed.

As the market has been climbing almost continuously since the beginning of the year, most of these sales were "premature" in terms of subsequent results. This does not mean that the judgment that suggested them was not sound, and amid all the speculative influences now dominating the market the tendency of large holders to lighten their commitments should be recognized as one reminder of caution.

### Aircraft and Auto Activity

Let's return now to the firmer ground of insider activity in individual issues, were long-established tendencies usually have pretty high forecasting value. Immediately apparent is the fact that virtually all of the trends now in evidence are on the selling side. With only negligible exceptions the recent purchases have not fit into any discernible pattern.

Among *aviation* stocks a majority sentiment for the continued liquidation of insider holdings remained in effect. A total of 41,740 shares of **General Dynamics** were divested during the March quarter; as stated the sale of 37,740 shares in March alone, mostly by Vice President Lester Crown, was excluded from the chart. A thousand shares of **Martin** was sold in February and 2,000 in March. Consistent sales of **North American** were also made throughout the period. **United Aircraft** and **Douglas**, however, were absent from either side of the list, and some small purchases were made of **Lockheed** and **Curtiss-Wright**. Curtiss, it will be recalled, suffered particularly from the piston to jet transition and has been eagerly searching for some substitute activity.

In the **automotive** field, earlier selling trends in **Ford** and **General Motors** pretty well dried up during the recent March quarter. **Chysler**, last hit by heavy insider selling in December, has shown some accumulation since then. Three officers of **American Motors**, however, disposed of 9,500 shares, and even heavier sales were made of **Studebaker-Packard**, where two officers (one

of them resigning) eliminated their holdings entirely. **Goodrich** and **Goodyear** showed rather steady selling trends, while Director Arthur Rude sold 2,000 **General Tire** in March. **Dana, Eaton Mfg.** and **Mack Trucks** were also rather heavily sold. A furious rate of activity was visible in **Fruehauf Trailer,** but the picture was so confused as rival factions struggled for control that any meaning was concealed.

### Textiles, Paper Unpopular

The *textile* stocks were distinctly unpopular with management. Both **American Viscose** and **Celanese** were sold consistently, in the case of the former extending a trend beginning last summer. And **Burlington Industries** continued to be sold in exceptionally heavy volume, the largest blocks of which were excluded from our index; total insider sales of Burlington since last August exceed 155,000 shares. **United Merchants** was sold in smaller but steady volume during the recent quarter.

Among the *papers* the industry trend was not so strongly pronounced. However, **International, Kimberly Clark, Georgia-Pacific, Fibreboard** and **St. Regis** were all rather heavily sold, and **Champion Paper** and **Container Corp.** in lesser degree. A single large sale of 1,000 shares of **Minnesota & Ontario was** made by Secretary Angust T. Morrison, in March. Among the majors, only **Crown Zellerbach, Scott** and **West Virginia Pulp** remained substantially unaffected by this tendency.

### But Few Industry-Wide Trends

Outside of the textiles, however, it has been difficult to establish any clear trends on an industry-wide basis. Among the tobaccos heavy insider sales were made of **Liggett & Myers** and **Philip Morris** but none of **American, Lorillard or Reynolds. Beechnut** was distinctly unpopular with its officers during the quarter, as were also **General Mills, Glidden** and, with particularly heavy sales, **United Biscuit,** but other food companies were uncontaminated. In the drug field a large sale of 10,000 shares of **Pfizer** was made by Director George Anderson (who retained 307,000 shares) in January, while **Gillette, Bristol-Myers** and **Merck** showed smaller sales extending over a longer period.

One of the clearest selling trends was in **Monsanto Chemical,** where four officers disposed of 9,220 shares during the quarter. **Stauffer** was also heavily sold, and three directors of **Olin Mathieson** — two of them members of the Olin family — distributed 114,000 shares in January — an item excluded from our index.

In heavy industry **Republic** was the only one of the *steels* to show a marked selling trend. **Otis Elevator, Caterpillar Tractor** and **Chicago Pneumatic Tool** were sold in moderate volume, together with 10,000 shares of **Outboard Marine** by Ralph Evinrude in January, but generally machinery executives were satisfied to keep their holdings.

**Kerr McGee** and **Union Oil of California** were under fairly heavy liquidation, but otherwise this tendency was not common to the oil industry.

### Liquidation in the Glamour Stocks

One interesting tendency, cutting across industries, has been for the taking of profits in particularly successful glamour stocks. Few of the most exotic issues are included in our index, but among those that are over 10,000 shares of **American Machine & Foundry** were disposed of by officers in the recent quarter (with some offsetting purchases), while **Brunswick** was sold to the tune of nearly 60,000 shares, without any intervening purchases. Sales of **Minnesota Mining** approximated 45,000 shares, although 7,500 were purchased in the meantime. Holdings of **Minneapolis Honeywell** and **National Cash Register** were also lightened substantially by their own officers.

Among issues not covered by our 200-company index, 15,700 shares of **Texas Instruments** were sold and an additional 3,750 shares traded for a mutual fund. Other insider sales during the March quarter included: **Avnet,** 14,200 shares; **Automatic Canteen,** 4,300 shares; **Bell & Howell,**

18,550; **Chock Full o' Nuts,** 40,940; **Lear,** 7,740; **Litton Industries,** 42,000; **Mead Johnson,** 3,100; **Microwave,** 35,300; **Revlon,** 122,760; **Varian Associates,** 6,260; and **Vendo,** 41,000. All of these were without any substantial offsetting purchases during the same period.

### A Warning

The single issue in which a confirmed insider buying trend has been evident this year is **International Minerals,** with 5,150 shares acquired during the first quarter and a further 5,000 (on the basis of an interim report) picked up in April.

**Our index of the 200 largest manufacturing companies, while selected to minimize speculative furries, probably does not measure the full impact of insider selling pressure at present. At least, the sales of the high-flying, speculative issues enumerated above were very much heavier than of the higher quality equities composing our index. More significantly, the margin of sales over purchases in the former category is overwhelming; net sales are nearly identical with total sales. It is clear that much of the glamour stock now being so eagerly gobbled up by the public originates from the portfolios of officers and founders. With some exceptions these sellers generally retain large holdings, and their partial realization of profits could be regarded as nothing more significant than conservative policy — just as the most secure dictator is apt to build up a numbered bank account in Switzerland. But these executives are reducing their risks. It may not be wise for less fully informed investors to assume them.** END

## Strong Stocks Offering Unusual Investment Values

*(Continued from page 322)*

it is virtually immune from the many foreign entanglements and political difficulties that have sorely plagued the rest of the industry in recent years.

This reliance on domestic copper has been a source of particular strength recently since foreign users of copper have been willing to pay higher prices in order to be assured of a supply from the United States, in view of the numerous disruptions that have beset their procurement programs in Latin America and Africa.

Strong demand for copper from the booming European economy, in fact, was responsible for an excellent first quarter at Phelps Dodge despite the general recession at home. Earnings were 90¢ per share, almost double the 48¢ reported in the first quarter of 1960. Even more significant, however, is the fact that the first quarter results were so good *before* the recent increases in copper prices. Hence, second quarter and full year earnings may well climb above $4.00 per share for the first time since 1957.

The possibility of rapid earnings improvement is enhanced by the company's strongly entrenched position in the industry, and its reputation as one of the lowest cost producers in the United States. All in all, it accounts for about 25% of domestic production with most of its output coming from open pit mines where the ore can be scooped up with enormous shovels rather than chipped out of the ground by burrowing miners.

In addition to mining operations, the company has two large refineries in the United States and several mills that turn out finished products such as wire and cable. The plants are well located in such industrial areas as New Brunswick and Rahway, N. J., Yonkers, N. Y., Fort Wayne, Indiana and Los Angeles, California. Unfortunately, fabricating and milling operations were not profitable in the first quarter due to the domestic recession. Had they carried their weight, results would have been substantially higher. As the economy picks up, however, Phelps Dodge should get the double benefits of increasing copper prices and profitable operations from its manufacturing activities.

Financially, Phelps Dodge is as sound as a rock. There no long term debt, and short term liabilities come to only $40 million compared wih cash and government securities of over $107 million. Hence, dividends, which have been paid every year since 1934 are seldom in jeopardy even in years of poor earnings. The current $3.00 rate has been in force since 1951 except for 1955

and 1956 when extra payments reflecting exceptionally high profits, were made. Working capital, at the end of 1960, was $171 million, or almost $17 for each share of stock.

Shareholders, therefore, have the advantage of a big percentage of assets in liquid form that can be used for new investments in promising areas. This is true not only of the working capital position but also of the company's large investment in marketable securities. At the end of 1960 the company held $71 million in government bonds and $38 million worth of common stocks in Amerada Petroleum, American Metal Climax and New Jersey Zinc. Furthermore, the company has a $25 million investment along with other companies and the Export-Import Bank, in Southern Peru Copper, a huge new copper development in Arizona. This latter investment should pay off handsomely for stockholders since it will provide both a source of low cost copper as well as substantial investment profits.

The absence of debt indicates that Phelps Dodge has been able to finance its entire expansion program from internally generated funds. This is especially significant since the company's depletion allowances on old properties are virtually exhausted and hence give little tax-savings benefits.

Like all mining and metal stocks, Phelps Dodge fluctuates widely in price, but unlike many, it provides the long term stockholder with stability of income, a steadily rising earnings base and an alert, aggressive management that consistently maintained low cost operations. Moreover, despite the wide fluctuations in price, the trend has been persistenly upward for a decade, with current prices about double those of 1950-51. For inflation conscious investors, therefore, Phelps Dodge offers that unique combination of a sound natural resources position, financial stability and high income.

**Youngstown Sheet & Tube** provides the more venturesome investor with a combination of high dividend payout and small capitalization that can lead to wide moves in the stock market.

The company is the nation's sixth largest integrated steel producer, with an annual capacity of almost 7 million tons. Principal producing facilities are located in the Chicago area and in Youngstown, Ohio, placing the company well within major industrial markets for steel. In addition, its proximity to the country's major rail hub enables it to ship easily to far off points, making Youngstown a substantial supplier of steel to the oil and gas industry. In all, oil and pipe line facilities absorb about 17% of Youngstown's output, almost as much as the 20% that finds its way into the automotive industry .

The importance of oil and gas pipe, plus the company's excellent customers list among machinery producers has led to substantial investment in recent years in the Chicago operation, so that today it accounts for roughly 50% of the company's output. So important, in fact, has this market become for Youngstown, that by far the largest part of the $750 million capital expansion program of recent years was spent in the Chicago area.

However, not all of the company's capital outlays went into production facilities. As an integrated producer, the company has long followed a policy of building up its raw material resources. Hence, part of recent outlays were made for mining properties. As a result, Youngstown obtains more than half its iron ore reserves from either wholly owned or partly owned subsidiaries. Among these major properties are Iron Ore of Canada, located in Labrador and Quebec, and Erie Mining Co., a Minnesota producer of taconite with an annual capacity of 7,500,000 tons of pellets.

Part of the attraction of

Youngstown is that most of its properties and capital expansion has been accomplished from internally generated earnings. Long term debt has climbed from $52 million in 1951 to $165 million in 1960 but over the same period the company has expended almost all of the $750 million laid out in the postwar era. Hence, enormous productive capacity has been built with stockholders money, and for the sole benefit of stockholders.

Of perhaps greater significance, is that little common stock financing has been used, so that the number of shares outstanding have remained small (only 3,485,000 shares) allowing earnings to build up quickly for shareholders when business turns upward. Of equal importance is the fact that the small number of shares keep dividend requirements from becoming too burdensome in bad times, so that excellent stability of payments has been mainained. The current $5.00 rate was kept up all through the trying steel strike and the recession that followed in 1960.

Actually, Youngstown earned its dividend in 1960 despite operations that averaged about 60% of capacity. Moreover, even in the second half of the year, when the company ran at only 44% of capacity, cash earnings were more than enough to meet dividend requirements. In part, the stability of dividend payments can be traced to the company's huge depreciation allowances stemming from its previous high level of capital outlays. But additional credit must be given to the greater efficiency brought about by the modernization and expansion program.

Like our other two companies, Youngstown is in top financial shape. Cash items add up to $72 million compared with current liabilities of $94 million. Working capital of $167 million provides ample financing for all current needs. This is especialy true now, since capital outlays for the next several years will be considerably below the record $102 miilion spent in 1960.

Youngstown's earnings understandably fluctuate with the overall demand for steel. Nevertheless, its highly efficient operations have enabled it to cover the present $5.00 per share dividend in every year since 1950. Of perhaps greater interest for stockholders is the likelihood that a resurgence in steel demand could well lead to the first dividend increase since 1956. If not this year, because of the slow first quarter, then at least in the opening half of 1962.

### Summary

The three companies presented here are all major factors in basic areas of the domestic economy. Each, moreover, has a unique spot in its industry and the financial resources to assure both a sound participation in future growth and ample protection in times of contraction.

Value is a word that has been missing from the lexicon of the stock market in recent years. There is evidence, however, that it is beginning to creep back in. These companies provide the value necessary for safe, intelligent investing. END

## Rationalizing The Illusions And Realities About South America Today

*(Continued from page 315)*

or mental, over long periods of time. To be sure, air-conditioning is a saving factor for those who work indoors, but this form of relief will hardly compensate fully for the adverse outdoor environment, even though it could prove to be the most important single mechanical device contributing to the general welfare and progress of the continent. Irrigation brings relief agriculturally to some of the dry regions, but at considerable cost. What can be done to alleviate further the climatic handicap remains unanswered. That anything consequential can be achieved is open to serious doubt.

### Why South America Cannot Duplicate the Economic Growth of North America

Comparisons often are made between the successful development of the United States and South Amrican potentials, to point up the great promise of the latter area. There is, however, one important difference between the two situations. We must remember that capital alone did not transform the United States from a wilderness into the earth's

foremost nation, but capital combined with the right quality of settlers. The population of South America, like that of the colonial United States, is still largely peripheral and clustered, and about 75 percent of the population lives on 25 percent of the area. *The density, if density has any real meaning at all, is hardly more than 10 persons per square mile.*

If South America is to go forward as rapidly as some of its leaders hope it will, and as some in the United States predict it will, the bulk of the population must be comparable in ability and determination with that which made the United States great. Most of the continent's current population certainly does not measure up to such standards.

**Anthropolgists tell us that all peoples, given the same opportunities regardless of race and other differences in initial characteristics, can be educated to make them all equally capable. Granting the validity of this theory, the time and cost involved in converting perhaps 40 millions or more of Indians, Negroes, mestizos and ignorant whites into efficient well educated workers are so staggering as to make the action discouraging at best, not to say quite impractical. If such action be not feasible then obviously South America must look to new settlers from without the continent.**



### Trade — Credit — Investment

There are those who point out a substantial trade between the United States and South America as evidence of the bright future of the southern continent. We do not minimize the significance of the fact that about 11 percent of our exports go south and as much as 16 percent of our imports come from South America. This does not mean, however, that these ratios will rise notably higher if they are dependent upon the domestic economic development of the latter continent. **We emphasize "domestic development" because trade is sensitive to many elements such as credit terms, credit insurance, guarantees against losses due to political upheavals, international sentiment, philosophies of life, and foreign investment.**

**The last named element deserves special comment. Just as the capital which accompanied European settlers in the United States played a critical role in creating wealth that led to a vigorous trade with Europe, so investment in South America can do much to advance its trade with us and other areas, provided the continent has the kind of people who can put that capital into effective work. The widespread appearance in South America of names designating well known United States products, is due in part to the establishment of assembly plants, especially automobile, to special distributor arrangements and to a few branch factories. As is well known, United States capital has also played a role in the production of raw materials such as copper, tin, rubber and water power.** Flanking the 80 mile roadway from Santiago to Valparaiso are numerous billboards, United States style. A check of the names on these signs along a ten mile stretch yielded the following: General Electric, Ford, Massey-Ferguson, Philco, Zenith, Esso, Champion, Nescafé, Coca-Cola, General Tire, RCA and Oliver. **Although these names suggest importations, many of them are associated with local production facilitated by foreign investment.**

### Moving the People to the Hinterlands

In an effort to pull people away from cities or to entice settlers from other localities, some of the South American countries are utilizing various devices, the most notable of which is the shift of Brazil's capital from the Atlantic seaboard some 600 miles into the interior. Leaders believe the building of Brazilia will open up the countrysde between it and Rio de Janeiro and at some subsequent time will encourage settlement in still other interior areas. Time only can reveal whether this theory will become a fact.

**In other regions, as decentralization of cities progresses, persons here and there purchase peripheral land on a speculative basis hopeful that either it may be in demand later for urban expansion or the growth of cities may give such land increased value as farmland which in turn would provide food for the cities. These ventures could start a chain reaction which could advance the productivity of the entire continent and raise the standard of living.**

### The Opportunities and Effort Necessary

It is not the writer's purpose to demonstrate that South America is resource poor. Quite the contrary, its natural resources may prove abundant. Undoubtedly further exploration will bring to light new minerals or new deposits of the kind already being extracted. Farmers will adopt better procedures leading to improvement in their plant and animal crops both in quality and quantity. More running water will be harnessed to provide more power for which there is considerable need. **The big question to be answered is: Can the people lift themselves by their own bootstraps, as it were, to an economic level which will make possible mineral exploration and farm progress on a scale adequate to reinforce their initial efforts and in turn lead to even greater production, that is, to greater wealth?**

The Latin mind is unique. If

any evidence be required in support of this commentary one need only to review the frequency of riots and revolutions among Latins the world over. This behavior seems to be an essential part of their way of life. When a firm of the calibre of W. R. Grace & Co. suggests that one of the ways to encourage trade with South America would be for our government to *"provide a very simple form of insurance against the risk of expropriation"* and that *"such insurance should not be dependent on bilateral agreements between the United States Government and the Latin-American governments concerned,"* the statement must be interpreted as a warning against the political instability of the nations, which in turn means of course, the instability of their people. This human characteristic poses a serious problem not only with regard to trade relations in private channels, but in association with current foreign aid plans of the United States government. These comments are not intended to imply the absence of highly capable individuals.

### Aid to South America Must Be Tied to Responsibility

**The hundreds of millions of dollars appropriated by the United States Congress to be used in aiding Latin America can be effective, and then only partially so, if those immediately responsible for their distribution understand this Latin mind, and orient their own behavior accordingly.**

**In the first place, an effort must be made to convert South American governments' representatives and business leaders to more tolerant attitudes toward the masses than they now exhibit.**

**What is more, these same parties must be required to take the initiative in bringing about effective social and land reforms, in inaugurating slum clearance action, in introducing improved educational facilities and school attendance requirements, in beginning the modernization of farm practices, in making possible the opening up of new country, putting forth an effort to ameliorate poverty, taking prompt action in the improvement of health and sanitation facilities, and to act in still other ways to advance the well-being of all the people.**

**In other words, there must be a demonstration by responsible authorities of a willingness to work out a self-help schedule even if it means greater taxation of the wealthy and other sacrifices. In these circumstances our aid could become one segment of a joint action. Too often, in the underdeveloped countries where aid is dispensed by us, the recipients quickly evolve a feeling that it is their *right* to have our assistance and our *duty* to give it.**

**Inasmuch as the problems are so complex and overwhelming, and certainly beyond the reach solely of monetary funds, failure to bring about immediate relief can gve rise easily to public disappointment, dissatisfaction and even antagonism. It is these effects which our dispensers of aid must endeavor to avoid and can avoid only if they make it clear that the people must solve their own problems; that we seek merely to assist in a modest way; that at best, significant change can come only over a long period of time, not so much in consequence of our action but in consequence of their own efforts.**

There are those who are hopeful that no matter how minor our help may be, what we do can be psychologically valuable. This could be true for a short period of time, but when the masses would finally awaken to the stupendous job at hand that can not be completed quickly nor without almost superhuman effort, their disillusionment could easily turn to wrath against us. Our official representatives would do well to mingle occasionally with "the man in the street", so that the mind we have been discussing would be better understood.

### Trade Advantages Through Heightening Transportation Modernization

One extenuating circumstance which has underlain the slower development of South America than that of the United States, is found in the location of South America in the low latitudes and more particularly, so much of it south of the Equator. Inasmuch as most of the commodities for export have been perishable agricultural products whose markets have been in the northern hemisphere, producers had to await the coming of mechanical refrigera-

tion on ships before they could take full advantage of an outlet for their surplus production. The new facility did not come into being until the 1880's. This was rather late as compared with the facility our people had, located as they were in high latitudes where shippers could take advantage, back in colonial days, of nature's own refrigeration system, namely, cool trans-Atlantic shipping lanes. To some extent, another aid to shipping was natural ice cut and stored in the winter and utilized to refrigerate ships during the summer season.

### Advantages and Opportunities of Immigrants from Northern Countries

After mechanical refrigeration made possible expansion of South America's world trade, the handicap already noted, of a relatively ineffective population, persisted. If more central or northern Europeans or persons from the United States or Japan could be encouraged to settle in South America the outlook would be notably brighter. This suggestion calling for immigrant settlers should not be interpreted as implying any shortage in population numbers. The appeal is not for more people but for more people with the requisite qualifications to exploit the continent's full potentialities. The efforts to industrialize that have been made, and are being made in many localities, tell the success story of what the right kind of immigration, can accomplish. Sao Paulo is a shining example.

But there is so much to be done that the road ahead is likely to be rocky. To begin with, a strong educational program must be developed to provide the necessary technological know-how. A good domestic market must be evolved to consume most of the finished products, but before this can be done the purchasing power of the masses, now little more than $50 annually compared with over $2,000 in the United States, must be raised.

In Argentina and Chile the level is well over $100 as it is in one or two other nations. An ability to compete in world markets is a requisite which in turn dependends upon technologcal skills. It goes without saying that such adjuncts as good transportation facilities, abundant power, appropriate raw materials, capital, and agreeable working conditions for a reliable personnel are vital too.

It is the present hope of the people that plants which have been erected by foreigners and those yet to be, will be transformed ultimately into native plants and become integral parts of a vigorous industrial atmosphere. This objective may be attainable in time, in spite of the several basic obstructions which have been pointed out. But industrialization is dependent upon such notable, almost revolutionary changes in the domestic life of the nations, that its attainment at best seems, much too far away for the present generation. **Our programs of aid to South America must take these factors into consideration.**

### A Late Start is Better Than None

About thirty years ago the writer proposed to the U. S. Department of Commerce that a joint project be undertaken by Brazil and the United States to explore the economic possibilities of the Amazon Valley. We suggested a commission consisting of an economist, a geographer, a geologist, agriculturalist, a social worker, an anthropoligist, and selected businessmen. The commission was to work in conjunction with an appropriate group appointed by the government of Brazil. Together they were to determine the potentialities of the valley for economic development noting not only available resources, soil qualities, topography, climate, and accessibility, but the amount and efficiency of native labor. From their investigation, conclusions were to be reached as to the best uses to which the area could be put, the probable required capital, and consequent trade possibilities between it and the United States. The theory behind this proposal was based upon the concept that international trade expansion can be effected through the creation of new markets. The proposal was rejected on the ground that the American businessmen would not approve such a long range investment as this on the part of the national government! The principle involved is still valid, and might very well serve as a working model to guide those responsible for the distribution of our foreign aid funds to the various countries. END

## There Is Sharp Improvement In The Domestic Oils

*(Continued from page 325)*

**weakening of prices in April 1961, recent developments in the oil markets indicate that quotations are firming, and the outlook is for maintenance of relatively firm prices so long as the industry exercises restraint over refinery runs.**

GROSS REFINERY REALIZATIONS FROM MAJOR OIL PRODUCTS
(Dollars Per Barrel)

| | *Mid-Continent* | | | *U. S. Gulf* | | |
|---|---|---|---|---|---|---|
| | *1961* | *1960* | *1959* | *1961* | *1960* | *1959* |
| January | 4.02 | 3.59 | 3.99 | 3.96 | 3.68 | 3.75 |
| February | 4.04 | 3.63 | 4.02 | 3.96 | 3.51 | 3.69 |
| March | 3.96 | 3.60 | 4.00 | 3.93 | 3.58 | 3.73 |
| April | 3.97 | 3.53 | 3.96 | 3.78 | 3.58 | 3.73 |
| May | | 3.46 | 4.01 | | 3.56 | 3.61 |
| June | | 3.70 | 3.83 | | 3.63 | 3.51 |
| July | | 3.75 | 3.72 | | 3.84 | 3.63 |
| August | | 4.02 | 3.85 | | 3.83 | 3.63 |
| September | | 4.04 | 3.78 | | 3.81 | 3.63 |
| October | | 3.97 | 3.59 | | 3.83 | 3.62 |
| November | | 4.06 | 3.60 | | 3.81 | 3.63 |
| December | | 4.12 | 3.63 | | 3.82 | 3.64 |

### Facing the Future

► The domestic oil industry thus has laid a good foundation for profitable operations in coming months as well as for 1962. Accompanying the improvement in refinery operating rates has been a decided step-up in efficiency. Each of the major oil companies has undertaken programs to economize and to increase productivity. New, more efficient lines of administration have been drawn and subsidiaries and affiliates operating in the same phases of activity have been consolidated under a single executive function. Now, virtually every company in the industry is handling a larger volume of business with considerably fewer employees than ever before in history.

The industry, of course, needs a solid foundation on which to build its future, for by no means can it be taken for granted that all of its problems have been solved. There is, for example, considerable excess crude oil producing capacity now available and looking for market outlets. The Independent Petroleum Association of America recently estimated that the domestic industry's capacity to produce crude oil and natural gas liquids was as much as 10,933,000 barrels per day at the beginning of this year.

Current actual production is on the order of 8,200,000 barrels per day, indicating that over 2,700,000 barrels a day is shut in for lack of a market. The continued containment of this surplus through the efforts of the Texas Railroad Commission and other state prorationing agencies obviously is an essential task. **If, for some reason, the system of prorationing were to break down in the future, the oil industry would, indeed, face severe problems.**

**Import controls, as well as vigilant prorationing action, are essential to the future well-being of the industry.** Currently, the whole system of regulating the flow of foreign crude oil into the United States is being subjected to close scrutiny by the new Administration in Washington. Hearings are being held by the Department of Interior on the entire program. The exact outcome of this study cannot be forecast, but it does seem safe to conclude that, if anything, controls will be made more, not less, restrictive.

### Struggle for Markets

The build-up of a new and reasonably strong foundation is also of crucial importance to the marketing segment of the petroleum industry. As never before, integrated oil companies are trying to expand their marketing outlets into new territories. **This effort in and of itself is evidence of wholesome competition, but the danger is ever-present that the essential stability of the industry will be damaged and that prices will fall to non-remunerative levels.**

It of course makes considerable sense for any company interested in growing to develop new market outlets for gasoline and other refined products because in that fashion additional quantities of crude oil can be sold. **Historically, crude oil production has been the most profitable segment of the petroleum business, many companies often hardly breaking even on their marketing operations while they reaped substantial profits from production.**

► Three areas serve as the focal points of this increased competition in marketing—California, Ohio, and the eastern United States. ● The California market, long dominated by **Standard Oil of California** and a handful of other companies, has recently been invaded by **Gulf Oil, Humble** and **Continental; Phillips** stands in the background waiting for an opportunity to invade the area, too. ● In Ohio, where **Standard Oil of Ohio** has been the leader, **Humble** has again stretched out its arm; so have **Phillips** and **Sinclair.** ● In the Southeast, Phillips has been making rapid forward strides in recent years; it has pushed its eastern operations as far north as Pennsylvania. **Standard Oil of California** has been rumored to be making ready an aggressive entrance into certain southeastern states, and it recently acquired the largest independent fuel oil distributor in Connecticut.

### Shifts in Consumer Tastes

In addition to the operating problems which the industry must concern itself with as it faces the future, it is also being affected by changes in consumer buying habits and in the consumer's utilization of his leisure time. There is a good body of evidence which indicates that the average American no longer chooses to spend a great deal of his leisure hours behind the wheel of an automobile just for the simple pleasure of it. The "Sunday driver", connoting the man and his family on a road tour for no other reason than to pass the time of the day pleasurably by looking at the country side, was a commonplace term in the American idiom. It is heard less and less these days as there are a host of other leisure-time activities which now take the would-be driver away from his automobile. Boating has become very popular during the past decade. Other sports like bowling, which can absorb not only the head of the family but also his wife and children, have mushroomed into major industries.

The fact that the American motorist is not using his car as much as he once did is reflected in the statistic that the number of miles driven per vehicle has declined from 10,290 in 1953 to about 9,600 at the present time. At the same time that mileage is being reduced, so is the amount of gasoline needed to fuel the vehicle, likely to decline. This is because the compact car, one of the main selling points of which is economy, is proving to be very popular. The auto industry estimates that about 35-40 per cent of its total sales in 1961 will be compact cars.

### Outlook for Individual Companies

It is evident that the stock market appreciates the fact that the domestic oil industry is now in better shape to face the future than at any time in the past few years. After letting the stocks of most oil companies fall to quite low levels early in 1960 the investment world has cast a favorable eye in their direction and most oil stocks have performed very well since mid-summer 1960. It may now be appropriate to review the outlook of some of the individual companies.

Among the leading integrated oil companies, **Ohio Oil** has been making good progress on several fronts. Most significant of all, the company has a one-third stake in the Oasis Oil group which has established very large reserves of crude oil in Libya. At first, it was believed that reserves in the Dahra field in Concession 32 were the group's biggest find; more recent finds in the Waha area of Concession 59 at least rival those developed in the 32 block and may well prove to be larger. A pipeline with initial capacity of 300,000 barrels per day is soon to be constructed from Dahra to the Mediterranean Coast and is scheduled to be ready for operation in the second half of 1962.

If Ohio Oil is successful in marketing its share of the Oasis group's production, earnings of the company may be expected to show very substantial gains in the later part of 1962 and 1963. At home, Ohio is also making good progress in expanding its marketing and distribution business in the states of Ohio and Michigan. Through acquisition of smaller interests it has recently enlarged considerably the number of outlets it owns for sales of refined products.

Among strictly crude oil producing and royalty companies, **Louisiana Land & Exploration Co.** has exhibited stronger growth over the past decade than virtually any other major oil concern. This growth reflects the prolific nature of its lands in south Louisiana where it owns large royalty acreage. Explorers on this land have steadily pushed the oil drill deeper beyond existing producing depths to new oil and gas zones. There is still no end in sight for this kind of work, so that Louisiana Land, which has steadily passed along the benefits of its outstanding position to stockhold-

ers in the form of higher dividends, can reasonably be expected to continue to grow.

On the West Coast, **Richfield Oil** is beginning to benefit from the build-up of production in Alaska. It owns jointly with Standard Oil of California large leases in the Kenai Peninsula where substantial production is being established. Richfield does face the problem of combatting the effects of a major gasoline price war in California. This war has been going on for about two months and it may offset the profit gains that are being experienced from Alaska. However, the war should not be expected to continue for long, and then the Alaskan profits are bound to become obvious to the stockholder.

Moving from the Pacific Coast to the Southwest, mention should be made of **Shamrock Oil & Gas Co.** This modest-sized integrated oil company whose marketing territory spreads out from the Panhandle of Texas has registered well above-average growth over the past several years. It now appears to be in position to expand its growth even further as a result of important new gas finds made in and around Ochiltree County, Texas during the past two years or so. These finds appear to have established gas reserves of close to 1 trillion cubic feet. Very little of this gas is now moving to market, but over the next year or two, substantial quantities are likely to find a market. Earnings may be able to expand by one-third or more from current levels as a result.

Profits of virtually all other integrated oil companies are likely to show gains this year in line with the general improvement in refining and marketing conditions described earlier. Atlantic Refining, Union Oil of California, Cities Service, Champlin Oil and Refining, and Standard Oil of Ohio appear to be off to a very good year. And if the industry can continue to cope with its problems as well as it has in the recent past, 1962 and future years can also be reasonably good ones for these and other oil companies.

END

**The Outlook For The Natural Gas Industry**

**See Our Issue Of June 17**

## New Horizons In International Financial Cooperation

*(Continued from page 303)*

and $3.5 billion for Western Europe and Japan are suggested as adequate to meet any foreseeable contingency. Bernstein also proposes the inclusion of maximum IMF drawing rights (normally 125% of a country's quota) as a normal part of a country's available reserves. The original position of the nation involved would have to be restored, however, after about three to five years.

Several continental central banks naturally hesitate, however, to put the "Reserve Settlement Account" under the direction of the IMF. They would rather have a separate arrangement among the leading Western European nations and the U.S. on the basis of preservation of their own control, a reduction of American influence (which is prevalent within the Fund organization itself) and a tighter multilateral control over monetary discipline.

### Other Stabilization Plans

Several other programs deserve brief mention as new approaches to international payments and aid. The *Stamp Plan* of Maxwell Stamp, former Bank of England official, calls for an authorization of about $3 billion of IMF certificates in the coming year. These would be distributed to underdeveloped nations by a directing aid agency under a specified program. Developed countries (Britain, the U.S., etc.) which would accept payment from the backward nations in these notes for their orders for needed goods, machinery, etc., could hold the certificates as part of their reserves and buy and sell them from and to other nations whenever desirable.

A proposal by the ***U.N. Commission on International Trade would provide an international insurance fund for countries subject to sudden declines in the value of their exports.*** Contributions would be from all U.N. members, with industrialized countries paying on the basis of their incomes and underdeveloped nations according to their exports. Payments would be either in the form of cash grants or loans to be repaid after export recovery within a specified time period. **An IMF study** with somewhat similar objectives has recommended the provision of foreign exchange to Fund members **"to compensate for short-term fluctuation in the balance of payments, including those arising primarily from variations in export prices and receipts."** This group also stated that industrialized nations *"can modify their arrangements for the protection of domestic agriculture and mining in such a way as to exercise a less depressing and disturbing effect on world trade in primary products."*

### Significant Changes Coming

While it is too early to think in terms of details, the current trend in global trade and finance is clearly toward more cooperative actions, revisions in existing monetary institutions and the creation of new ones, initially on a regional and eventually on a world-wide basis. The era during which international reserves have been provided primarily from U.S. deficits is now over for all practical purposes, as a result of the economic recovery among other advanced nations of the Free World. All of these countries must, of course, practice self-discipline in keeping both their internal economies and balance of payments in order.

Some tangible hints of future developments should be looked for among the following areas: (1) the trend of the dollar and the pound sterling in foreign exchange markets; (2) the scope of central bank cooperation and the emergence of any formal new arrangements among such institutions; (3) price developments and the comparative cyclical position of business activity in the leading countries; (4) developments on the part of the Common Market and the Free Trade Area; (5) The International Monetary Fund meeting in Vienna this fall; and (6) any new multilateral economic or monetary conferences, perhaps within the framework of existing organizations. **It also goes without saying that the effects of Soviet monetary maneuvers, including gold sales, the possible creation of partial convertibility for the ruble, the dumping of commodities, especially oil, and other unexpected actions will require close scrutiny.**

But they are not likely to be a decisive factor in initiating any basic institutional changes to improve Western financial solidarity.

► Two quotes would be appropriate here: one by Prof. Henry Wallich, who was a member of the Council of Economic Advisers under President Eisenhower. He has stated that the international central bank idea probably is a desirable ***ultimate*** goal toward which to work and warned the U.S. not to stand in the way of progress once the time is ripe. ***Progress may require concessions, he said, that big powers are typically reluctant to make.*** And Prime Minister Macmillan of the U.K. recently concluded: "***. . . So there are three elements in the economic problem of the free world—trade, development and finance. They are closely linked. The needs of our time demand a new attitude to all of them. An old fashioned or doctrinaire approach is not good enough. We must use the energy and abundance of our free enterprise system to transform our economic life. Above all, we must try to jump—even the older ones among us—the mental hurdles.***"

END

## Electric Utilities At This Stage Of The Market

*(Continued from page 319)*

by the Eisenhower Administration. There was a considerable amount of public power added during the past eight years, due in part to the completion of big projects initiated during the Truman regime, and the issue over public power was kept alive by Washington adherents despite lack of encouragement from the White House. The feeling seems to be, therefore, that the new emphasis will merely be a matter of degree, since public power has already been an issue for many years. The area most affected by public power is the Pacific Northwest and utilities in that area have been somewhat less popular as a result of the talk of a huge Federal "grid", the proposed production of atomic power on a large scale at Hanford, etc. Stung by the Federal announcement, a group of western utilities have recently announced plans to build their own power grid.

Pooling of power resources by the investor-owned utilities also continues to gain. Thus **Atlantic City Electric** last year completed further inter-connections with the **Pennsylvania-New Jersey-Maryland Inter-Connection Power Pool.** The pool includes 13 electric utility companies and represents total generating capability of 14.8 million kw—the largest such group in the nation. Pooling has two favorable results: (1) it permits companies in contiguous areas, but with somewhat different consumer power needs, to operate as a combined system so that power not needed in one area can be profitably used in another, thus reducing over-all costs. (2) It permits utilities to "club together" and build bigger generating units, again decreasing costs. A few years ago a 100,000 kw generator was considered large, now American Electric Power has on order a 580,000 kw unit for one of its subsidiaries, and Commonwealth Edison has ordered a 510,000 unit. Thus the threat of increased public power may serve as a stimulant to greater efforts by the investor-owned utilities. This has also been true in the atomic power field, but unfortunately this hasn't worked out so well.

**TABLE 3—Rise in Earnings and Prices of Leading Electric Utility Growth Stocks**

| | 1960 Low | 5/16/61 Price | % Gain from 1960 Low | 5-Yr. Average Annual Increase in Share Earns. | P-E Ratio |
|---|---|---|---|---|---|
| American Electric Power | 46 | 67 | 46% | 5% | 28 |
| Arizona Public Service | 18 | 38 | 111 | 8* | 37 |
| Atlantic City Electric | 29 | 48 | 66 | 9* | 30 |
| Central & South West | 29 | 45 | 55 | 7 | 31 |
| Delaware P. & L. | 32 | 55 | 72 | 7 | 33 |
| Duke Power | 42 | 58 | 38 | 7 | 27 |
| Florida Power Corp. | 29 | 48 | 66 | 11 | 35 |
| Florida P. & L. | 51 | 70 | 37 | 15 | 34 |
| Gulf States Utilities | 28 | 39 | 39 | 5 | 31 |
| Houston L. & P. | 66 | 106 | 61 | 5 | 32 |
| South Carolina E. & G. | 34 | 56 | 65 | 6 | 27 |
| Southern Company | 39 | 60 | 54 | 8 | 30 |
| Southwestern P. S. | 23 | 31 | 34 | 6 | 28 |
| Tampa Electric | 25 | 42 | 68 | 12 | 34 |
| Texas Utilities | 71 | 103 | 45 | 9 | 33 |
| Tucson G.E.L.P. | 24 | 44 | 83 | 8 | 42 |
| Virginia E. & P. | 35 | 60 | 72 | 8 | 31 |
| Average | | | | 8% | 33 |

*—Uses "flow through" which increases rate of growth.

### Problems For Atomic Power

**It was expected a few years ago that by this time atomic power would be competitive with "fossil fuels" in areas of high cost fuel, such as New England, but this is not yet the case. Safety considerations have greatly increased the construction cost of atomic reactors, and the recent death of two of the commission's own employees resulting from an atomic flare-up in an Idaho experimental reactor has resulted in further tightening of regulations.**

► The labor unions in Michigan had already made an issue out of the location of the Fermi Plant which was considered too near the city of Detroit. ► Despite successful test operations, the big Dresden (Illinois) reactor has been closed for some time due to difficulties with fuel rods. ►While Yankee Atomic Power is going into commercial operation shortly and Indian Point (Con Edison's plant) should be ready this summer, plans for other new plants have lagged. A big new plant has been proposed in New York State, but this will not be completed for seven or eight years.

Atomic power currently costs about twice as much as conventional steam power, except in New England, New York and a few other areas where the freight cost of bringing coal to the area (or bringing gas by pipeline) is heavy. Some recent progress is reported with harnessing fusion (the principle of the hydrogen bomb), but many years' work may be required to perfect this method of producing power. Gains are also reported with the fuel cell, and the latest development is the biochemical fuel cell —using algae, one of the sim-

plest forms of living matter, as a source of both oxygen and fuel to prime the fuel cell — according to a recent feature article.

### Capacity and Demand for Power

The electric utility industry is in a strong position as regards excess capacity. At present it has 29% more capacity than is needed to meet the anticipated peak load. This means that capacity to meet average load would be considerably higher, but of course if inefficient standby generating plants (used only during peaking periods) were eliminated, the margin of reserve capacity would be less. As a matter of fact a number of companies are now substituting small new flexible units of greater efficiency (to take care of peak requirements) although the general trend is to keep the old units on hand as long as possible until they are completely written off, as thus a return can be claimed on a larger rate base.

The demand for electricity is expected to continue growing at a rapid rate. ● Thus the Edison Electric Institute recently reported the summer peak load in 1960 at 144 million kw, and forecast the 1964 peak at 179 million kw, indicating a compound rate of growth of 7.4% per annum. (For the December peaks the increase would be 6.9%). ● However, based on orders for new generating units placed with manufacturers (usually these are placed two or three years ahead because of the time required for manufacture) there will be an average annual increase in capacity during 1961-4 of only 5.7%. ● Thus, the industry is allowing its excess capacity to run off somewhat; by 1964 this may have fallen to around 23%, which is still relatively high compared with the early postwar years.

Are some areas really overbuilt electrically? Based on the Edison Electric Institute figures for gross margins of capacity over peak loads, and median hydro conditions, it appears that there has been some overbuilding of capacity in the East Central region (Ohio, Illinois, Michigan), in the South Central region (Texas and neighboring states) and in the Northwest (Washington, Oregon, Idaho, etc.). However, the forecasts for the year 1964 indicate that the East Central area expects to lower its surplus substantially and the South Central will also reduce its summer excess from 29 to 17%. The Northwest will be very sharply reduced from the present December peak of 29 to only 11%.

Under very adverse hydro conditions the Northwest would be unable to take care of its peak loads, especially in the eastern division where there would be a deficit of 9% (for the entire region it would be 5%). Apparently, this recognizes the probable increase in the supply of natural gas for industrial use in this area, plus the probable resumption of public power development as well as proposed production of atomic power in Hanford.

### Electrical Utilities and the Investor

What about the future trend of electric utility earnings? Will they continue to gain as consistently as they have in recent years? An important factor in favor of an upward trend in earnings is the constantly increasing number of utilities which are using the "flow through" method of dealing with income tax savings, either on their own initiative or under pressure from state commissions. This automatically increases share earnings for the companies involved. Another factor is the continued gain in operating efficiency from greater automation. The utilities are almost an ideal industry in this respect and they have been able to cut down the number of employees steadily (by attrition rather than by firings), thus offsetting the regular rise in weekly wage rates and fringe benefits.

► The almost steady rise in the cost of fuel has also been more than offset by the increased efficiency of the bigger units now being installed. Bi-monthly billing, which has now been adopted by most utilities, has cut office costs. The use of computers is steadily gaining both for bookkeeping operations and for engineering planning and the operation of generating plants. In one **or two modern generating plants employees have almost been eliminated, except for maintenance and emergency.**

► **All these factors, combined with the reduced "dilution" of share earnings because of smaller amount of equity financing, continue to maintain a steady uptrend in share earnings for the average electric utility. There are of course a few exceptions where local conditions such as weather or regulation or industrial conditions prove unfavorable. However, these are the exceptions rather than the rule and merely serve as a drag on the favorable showing of the entire industry. Because of the "built in" protective features in industrial rate schedules, utilities were very little hurt by the moderate industrial recession of the past year — although a longer and more severe depression would be a different story. Moreover, residential and commercial use of electricity continues to gain even when industrial usage dips. Air-conditioning is increasing steadily and electric heating is rapidly coming into vogue. The latter is a tremendous load builder and the "all electric" home is increasingly favored by developers of new residential areas. These houses use several times as much electricity as the older house which has both gas and electricity.**

### The Canadian Utilities

► **In Canada,** the premier growth utility continues to be **Calgary Power** — most of the other growth utilities in Canada have fallen by the wayside and are now selling at low price-earnings multiples as compared with those of several years ago. **British Columbia Power,** for example, which used to sell at a high multiple along with the best U. S. growth utilities, now sells at a low fifteen times earnings like **some small New England company.** Not only has the former growth in earnings been checked but the Province is now threatening to take over the company because of a dispute with Ottawa. **Shawinigan Water & Power,** which also used to be a top growth utility, now sells around eighteen times earnings, compared with Calgary's twenty-six. **Quebec Power** sells at less than fourteen despite an excellent record. The investor who is now wary of U. S. growth utilities might study the Canadian picture for bargains. END

## The Miracles Of Global Communication Via The Outer Space Highway

*(Continued from page 306)*

**ginning to catch up. The company has just scored a minor triumph over A. T. & T. in the field of Government communications satellites. R. C. A. was selected as the prime contractor for the National Aeronautics and Space Agency's *Project Relay.* This is the Government's own attempt to test the feasibility of global telephone conversations and television over space satellite networks.**

The experience R. C. A. gains in the course of setting up ***Project Relay*** should prove invaluable when the Commission allots frequencies so that the company can set up its private satellite system and begin to make money for its stockholders. The experience will be gathered free since N. A. S. A. will be footing all bills for Project Relay.

► Initial expenditure for the private satellite aims of R. C. A. and its partners, General Telephone and Lockheed, will undoubtedly exceed those of A. T. & T. The R. C.A. "team" has given no figure but reliable estimates run well in excess of $200,000,000. This, of course, will be split three ways.

The R. C. A. group wants to place three equidistant satellites in fixed orbits 22,300 miles over the equator. The company contends that satellites at that height and so located, would act as carriers for all kinds of electronic communications signals to any part of the inhabited world.

### The Goals of General Electric

**General Electric's plan is to launch ten active communications satellites in controlled orbits 6,200 miles above the equator. The company has never given an estimate on the cost of its project but contends that it will be less costly than that of A. T. & T. It also claims that a fixed orbit system would be less bothersome to maintain permanently and varying relay delays that would seem inevitable under random orbits would not be present.**

**Some clue as to General Electric's financial goals in the global space satellite communications race does exist. The company has said that it could make an operational profit of $30,000,000, after taxes, annually after 1970.**

### Differences of Opinion

A. T. & T. remains silent on assertions that random orbit satellites would require expensive tracking and would lead to embarrassing relay delays. Electronics engineers outside the company, however, are convinced that the communications giant has solved this problem and that its reticence is born of compelling competitive reasons.

On the greater height of rival satellite orbits, A. T. & T. is not so uncommunicative. The company states flatly that high altitude satellites would involve delayed transmission and echo feedback, and could thus prove to be impractical.

### Significance to Electronics Industry as a Whole

**On the surface, it would appear that global communications' expansion over the space satellite highway will benefit only a handful of corporate giants able to meet huge financing requirements. A closer examination of the potential, however, reveals that the entire electronic industry will gain new markets for its products.**

► First, ***producers of computers and related electronic data processing equipment*** will increase vastly their sales and rentals to overseas customers. Their machines which now "talk" to other similar machines on the ground through the A. T. & T. unscrambling DataPhone will be linked over oceans and continents in a matter of seconds. The men who estimate future sales and those who estimate profits and dividends from such sales are watching the satellite developments keenly at such companies as the International Business Machines Corporation, the Sperry Rand Corporation, the National Cash Register Company and the Burroughs Corporation.

► The stake in space satellite communications of the ***radio and television broadcasting*** industry is obvious. The frequent calls for global television by Brigadier General David Sarnoff, chairman and chief executive officer of Radio Corporation, spring from more than pure altruism. R.C.A.'s wholly-owned subsidiary, the National Broadcasting Company, stands to profit enormously by a highway over which its programs may travel easily to new and faraway places.

► ***Medium size*** and ***smaller companies*** will participate too in the space satellite program to be started and maintained by private, investor-owned American enterprise. Their share in the coming bonanza will be derived from supplying the thousands of components with which a satellite must be equipped in order to "bounce" electronic signals all over the world.

***Missiles*—About 50 per cent of a missile is electronic and a satellite often has been described as a missile without a warhead. When the average investor thinks of missiles, he thinks in terms of prime contractors like Boeing, General Dynamics and other corporate giants. But they do not make everything that goes into missiles. Thousands of suppliers, ranging from medium-size, publicly-held companies to small, family-owned enterprises make special parts—the so-called electronic "nuts and bolts" that help to launch, guide and control a missile in its flight.**

**Roughly the same sort of industrial teamwork will apply when private enterprise takes to space on its own, bent on making a profit from global communications.**

**Finally, global communications through space satellites is merely the first step in exploitation of space by American business. Manned space flight will not permanently remain exclusively with the Government.**

**Alan B. Shepard, first American into space, was a Government employee—a lieutenant commander in the Navy. His flight was made possible primarily because of N. A. S. A., a Government agency. But the Project Mercury capsule in which he left earth's atmosphere and returned to it would never have been built were it not for 9,000 American business organizations headed by the McDonnell Aircraft Company and the Western Electric Company, manufacturing arm of A. T. & T.** END

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